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Canada. Parliament. House of Commons.

Standing Committee on
Finance, trade and economic affairs.

Minutes of proceedings and evidence
1967-68



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HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

PROCEEDINGS

No. 1-28

TUESDAY, MAY 30, 1967-68

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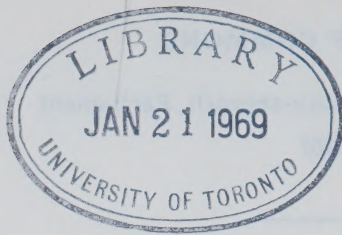
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Appendix A:

Main Estimates 1967-68, Department of Trade and Commerce

Appendix B:

Main Estimates 1967-68, Department of National Revenue.



STANDING COMMITTEE ON
FINANCE, TRADE, AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Addison,	Irvine,	McLean (Charlotte),
Ballard,	Laflamme,	Monteith,
Cameron (Nanaimo-	Lambert,	More (Regina City),
Cowichan-The Islands),	Latulippe,	Munro,
Chrétien,	Leboe,	Tremblay,
Flemming,	Lind,	Valade,
Fulton,	Macdonald (Rosedale),	Wahn—(24).
Gilbert,	Mackasey,	

Dorothy F. Ballantine,
Clerk of the Committee.

ORDERS OF REFERENCE

FRIDAY, May 19, 1957.

Resolved,—That the following Members do compose the Standing Committee on Finance, Trade and Economic Affairs:

Messrs.

Addison,	Gray,	Mackasey,
Ballard,	Irvine,	McLean (Charlotte),
Cameron (Nanaimo-	Lafamme,	Monteith,
Cowichan-The Islands).	Lambert,	More (Regina City),
Chrétien,	Latulippe,	Munro,
Clermont,	Leboe,	Tremblay,
Flemming,	Lind,	Valade,
Fulton,	Macdonald (Rosedale),	Wahn—(24).
Gilbert,		

THURSDAY, May 25, 1967.

Ordered,—That, saving always the powers of the Committee of Supply in relation to the voting of public monies, the items listed in the Main Estimates for 1967-68, relating to the Department of Trade and Commerce and the Department of National Revenue be withdrawn from the Committee of Supply and referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest

LÉON-J. RAYMOND,

The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

TUESDAY, May 30, 1967.

(1)

The Standing Committee on Finance, Trade and Economic Affairs met this day at 10:25 a.m. for purposes of organization.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Flemming, Gilbert, Gray, Laflamme, Lambert, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, Wahn—(13).

The Committee Clerk attending and having called for nominations, Mr. Cameron (*Nanaimo-Cowichan-The Islands*) moved, seconded by Mr. Laflamme, that Mr. Gray do take the Chair of this Committee as Chairman.

On motion of Mr. Lind, seconded by Mr. Macdonald (*Rosedale*),
Resolved,—That nominations be closed.

Mr. Gray, having been declared elected as Chairman, thereupon took the Chair and thanked the Committee for again electing him as Chairman.

Mr. Macdonald (*Rosedale*) moved, seconded by Mr. Lind, that Mr. Clermont be elected Vice-Chairman of this Committee.

On motion of Mr. Laflamme, seconded by Mr. Wahn,
Resolved,—That nominations be closed.

The Chairman therefore declared Mr. Clermont elected as Vice-Chairman and Mr. Clermont thanked the Committee for the honour conferred upon him.

On motion of Mr. Flemming, seconded by Mr. Macdonald (*Rosedale*),
Resolved,—That the Committee print from day to day 850 copies in English and 350 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Wahn, seconded by Mr. Laflamme,
Resolved,—That the items listed in the Main Estimates for 1967-68 relating to the Department of Trade and Commerce and the Department of National Revenue be printed as appendices in Issue No. 1 of the Proceedings of this Committee. (*See Appendices A and B*).

On motion of Mr. Laflamme, seconded by Mr. Wahn,
Resolved,—That the Chairman, the Vice-Chairman and seven members appointed by the Chairman do compose the Sub-Committee on Agenda and Procedure.

On motion of Mr. Clermont, seconded by Mr. Wahn,
Resolved,—That this Committee seek permission to reduce its quorum from 13 to 9 members.

On motion of Mr. Flemming, seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That this Committee request permission to sit while the House is sitting.

The Chairman agreed to present this latter recommendation to the House only after consultation with the House leaders and the members of the Subcommittee on Agenda and Procedure.

At 11:45 a.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

APPENDIX A

TRADE AND COMMERCE

MAIN ESTIMATES, 1967-68

TRADE AND COMMERCE

No. of Vote	Service	1967-68	1966-67	Change	
				Increase	Decrease
		\$	\$	\$	\$
(S)	Minister of Trade and Commerce—Salary and Motor Car Allowance (Details, page 493)....	17,000	17,000		
	GENERAL ADMINISTRATION				
1	Departmental Administration including fees for membership in the International Organizations listed in the Details of the Estimates (Details, page 493).....	8,429,500	7,314,100	1,115,400	
5	Trade Commissioner Service—Administration, Operation and Maintenance (Details, page 495).....	10,832,100	9,096,700	1,735,400	
(S)	Pensions to former locally-engaged employees of offices abroad (Details, page 498).....	1,700	1,700		
10	Canadian Government Exhibition Commission (Details, page 498).....	5,258,000	4,147,200	1,110,800	
15	Canadian Government Travel Bureau—To assist in promoting the Tourist Business in Canada including a grant of \$55,000 to the Canadian Tourist Association (Details, page 499).....	9,991,000	10,110,400		119,400
		34,512,300	30,670,100	3,842,200	
	STANDARDS BRANCH				
20	Administration and Operation (Details, page 500)	4,323,200	4,171,800	151,400	
	1967 WORLD EXHIBITION				
29	Canadian Government participation in the 1967 World Exhibition, Montreal (Details, page 501)	6,750,800	8,672,000		1,921,200
	SPECIAL				
(S)	Payment of carrying costs of temporary wheat reserves and payments in connection with the Prairie Grain Advance Payments Act (formerly under Finance) (Details, page 501)....	33,940,000	40,388,000		6,448,000
32	Grant to the Pacific National Exhibition, Vancouver, towards the cost of constructing a trade fair and sports building at Exhibition Park, Vancouver, the Government of Canada's share not to exceed \$2,000,000 (Details, page 502).....	800,000	1,200,000		400,000
		34,740,000	41,588,000		6,848,000
	SUMMARY				
	To be voted.....	46,384,600	44,712,200	1,672,400	
	Authorized by Statute.....	33,958,700	40,406,700		6,448,000
		80,343,300	85,118,900		4,775,600

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		Approximate Value of Major Services not included in these Estimates		
		Accommodation (provided by the Department of Public Works).....	1,461,600	1,264,700
		Accounting and cheque issue services (Comptroller of the Treasury).....	225,800	231,000
		Contributions to Superannuation Account (Treasury Board).....	1,019,600	562,700
		Contributions to Canada Pension Plan Account and Quebec Pension Plan Account (Treasury Board)....	136,300	137,600
		Employee surgical-medical insurance premiums (Treasury Board).....	92,000	51,100
		Employee compensation payments (Department of Labour).....	19,900	21,000
		Carrying of franked mail (Post Office Department)....	345,200	222,600
			3,300,400	2,490,700
		Statutory—Minister of Trade and Commerce—Salary and Motor Car Allowance		
		Salary.....(1)	15,000	15,000
		Motor Car Allowance.....(2)	2,000	2,000
			17,000	17,000
		GENERAL ADMINISTRATION		
		Vote 1—Departmental Administration including fees for membership in the International Organizations listed in the Details of the Estimates		
		Salaried Positions:		
		Executive, Scientific and Professional:		
1	1	Deputy Minister (\$27,000)		
2	2	Senior Officer 3 (\$20,500–\$24,750)		
4	3	Senior Officer 2 (\$18,500–\$22,750)		
11	8	Senior Officer 1 (\$16,500–\$20,500)		
2		(\$16,000–\$18,000)		
8	10	(\$14,000–\$16,000)		
4	4	(\$12,000–\$14,000)		
1	1	(\$10,000–\$12,000)		
9	9	(\$8,000–\$10,000)		
1	1	(\$6,000–\$8,000)		
		Administrative and Foreign Service:		
39		(\$16,000–\$18,000)		
61	24	(\$14,000–\$16,000)		
95	50	(\$12,000–\$14,000)		
25	72	(\$10,000–\$12,000)		
96	67	(\$8,000–\$10,000)		
7	44	(\$6,000–\$8,000)		
1	2	(\$4,000–\$6,000)		
		Technical, Operational and Service:		
1		(\$10,000–\$12,000)		
8	3	(\$8,000–\$10,000)		
21	19	(\$6,000–\$8,000)		
8	8	(\$4,000–\$6,000)		
2	2	(Under \$4,000)		

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		GENERAL ADMINISTRATION (Continued)		
		Vote 1 (Continued)		
		Salaried Positions: (Continued)		
		Administrative Support:		
		(\$8,000-\$10,000)		
2	7	(\$6,000-\$8,000)		
23	208	(\$4,000-\$6,000)		
298	143	(Under \$4,000)		
67		Local Assistance Abroad:		
		(Full Time)		
1	1			
798	689	Continuing Establishment.....	5,410,600	4,232,000
(798)	(689)	Casuals and Others.....	51,000	30,000
(14)	(10)			
(812)	(699)	Salaries and Wages (including \$467,100 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay)..... (1)	5,461,600	4,262,000
		Allowances..... (2)	34,300	61,500
		Professional and Special Services..... (4)	81,500	124,000
		Travelling Expenses..... (5)	448,200	386,250
		Freight, Express and Cartage..... (6)	12,300	12,220
		Postage..... (7)	32,400	37,200
		Telephones and Telegrams..... (8)	139,200	116,900
		Publication of "Foreign Trade" and "Commerce Exterior"..... (9)	83,800	76,380
		Other Publications..... (9)	626,900	705,400
		Advertising, Films and Displays..... (10)	511,500	597,400
		Office Stationery, Supplies and Equipment..... (11)	189,700	113,450
		"Canadian Trade Index"..... (12)	20,000	20,000
		International Wheat Council Fee..... (20)	29,700	29,700
		International Cotton Advisory Committee Fee..... (20)	4,000	4,000
		International Tin Council Fee..... (20)	5,200	5,000
		International Rubber Study Group Fee..... (20)	2,300	2,000
		International Sugar Agreement Fee..... (20)	12,400	9,900
		International Customs Tariffs Bureau Fee..... (20)	13,000	13,000
		International Lead and Zinc Study Group Fee..... (20)	4,600	4,500
		International Cocoa Conference Fee..... (20)	6,000	6,000
		International Coffee Study Group Fee..... (20)	17,000	17,000
		Contribution to the Toronto Junior Board of Trade to assist in defraying the costs of the World Congress of Junior Chamber International to be held in Toronto in 1967..... (20)		25,000
		Contribution to the Canadian Council of the International Chamber of Commerce to assist in defraying the costs of the 21st Biennial Congress of the International Chamber of Commerce to be held in Montreal in 1967..... (20)		50,000
		Trade Promotion at Home and Abroad..... (22)	690,900	632,700
		Sundries..... (22)	3,000	2,600
			8,429,500	7,314,100
		Expenditure		
		1964-65..... \$ 4,705,155		
		1965-66..... 5,465,019		
		1966-67 (estimated)..... 7,047,140		

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		GENERAL ADMINISTRATION (Continued)		
		Vote 5—Trade Commissioner Service—Administration, Operation and Maintenance		
		ADMINISTRATION AND OPERATION		
		Salaried Positions:		
		Executive, Scientific and Professional:		
3	1	Foreign Service Officer 9, Trade and Commerce (\$22,000)		
8	8	Foreign Service Officer 8, Trade and Commerce (\$19,080-\$20,750)		
20	17	Foreign Service Officer 7, Trade and Commerce (\$18,500-\$19,500)		
		Administrative and Foreign Service:		
50	6	(\$16,000-\$18,000)		
20	40	(\$14,000-\$16,000)		
20	32	(\$12,000-\$14,000)		
45	41	(\$10,000-\$12,000)		
50	71	(\$8,000-\$10,000)		
35	10	(\$6,000-\$8,000)		
		Technical, Operational and Service:		
1	1	(\$6,000-\$8,000)		
2	1	(\$4,000-\$6,000)		
		Administrative Support:		
1	1	(\$6,000-\$8,000)		
79	66	(\$4,000-\$6,000)		
4	4	(Under \$4,000)		
500	467	Local Assistance Abroad: (Full Time)		
838 (838)	766 (766)	Salaries (including \$761,700 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay).....(1)	5,562,100	4,768,700
		Allowances.....(2)	2,310,000	2,000,000
		Professional and Special Services.....(4)	80,000	66,000
		Removal and Home Leave Expenses.....(5)	530,000	500,000
		Other Travelling Expenses.....(5)	564,000	291,000
		Freight, Express and Cartage.....(6)	80,000	57,000
		Postage.....(7)	95,000	75,000
		Telephones and Telegrams.....(8)	180,000	150,000
		Office Stationery, Supplies, Equipment and Furnishings.....(11)	280,000	230,000
		Materials and Supplies.....(12)	15,000	9,000
		Repairs and Upkeep of Offices and Residences Abroad.....(14)	115,000	100,000
		Rental of Offices Abroad.....(15)	580,000	450,000
		Repairs and Upkeep of Equipment.....(17)	25,000	15,000
		Municipal or Public Utility Services.....(19)	53,000	42,000
		Special Benefits for Personal Services.....(21)	80,000	42,000
		Compensation to Trade Commissioners for Loss or Damage to Furniture and Effects.....(22)	4,000	4,000
		Sundries.....(22)	26,000	27,000
			10,579,100	8,826,700

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
GENERAL ADMINISTRATION (Continued)				
Vote 5 (Continued)				
ADMINISTRATION AND OPERATION (Continued)				
(Further Details)				
98	63	Head Office.....	1,655,900	1,061,500
		Posts Abroad:		
5	6	Accra.....	73,100	74,141
10	9	Athens.....	99,635	92,906
9	9	Beirut.....	108,055	96,027
1	1	Belfast.....	12,400	11,020
10	9	Berne.....	98,705	83,463
8	8	Bogota.....	84,475	79,069
	8	Bombay.....		53,182
14	16	Bonn.....	160,235	161,182
12	11	Boston.....	199,950	171,643
14	16	Brussels.....	134,810	124,900
12	12	Buenos Aires.....	88,375	85,427
6	7	Cairo.....	49,375	40,743
4	4	Canberra.....	72,960	70,097
10	10	Cape Town.....	70,590	69,505
10	11	Caracas.....	131,985	125,628
19	20	Chicago.....	283,305	248,692
11	12	Cleveland.....	146,520	134,427
4	4	Colombo.....	31,675	32,484
7	7	Copenhagen.....	77,545	65,859
10		Dallas.....	135,300	
16	13	Detroit.....	239,305	160,526
6	6	Dublin.....	41,230	39,076
12	13	Duesseldorf.....	136,390	125,870
5	6	Glasgow.....	76,535	66,465
11	13	Guatemala.....	133,565	121,176
11	12	Hamburg.....	111,000	103,758
20	18	Hong Kong.....	198,255	144,549
9		Islamabad.....	76,010	
11	11	Johannesburg.....	78,570	78,349
9	9	Karachi.....	89,095	108,137
11	9	Kingston.....	87,190	75,205
7	5	Kuala Lumpur.....	60,305	49,455
6	6	Lagos.....	95,650	94,455
8	8	Lima.....	86,565	78,488
7	7	Lisbon.....	78,390	61,858
7	7	Liverpool.....	73,460	69,716
43	42	London.....	450,900	389,979
10	11	Los Angeles.....	130,495	120,576
9	9	Madrid.....	89,125	77,098
12	13	Manila.....	88,300	80,169
12	13	Melbourne.....	114,840	103,817
12	12	Mexico.....	128,280	104,897
13	13	Milan.....	148,030	130,510
5	5	Montevideo.....	46,885	45,589
8	8	Moscow.....	96,240	84,150
10		Nairobi.....	77,500	
13	13	New Delhi.....	106,170	94,808
8	8	New Orleans.....	109,735	102,161
17	17	New York.....	271,750	243,898
7	7	Oslo.....	77,670	70,306
23	20	Paris.....	266,765	193,181
9	9	Philadelphia.....	126,565	117,719
12	12	Port of Spain.....	90,250	74,270
9	9	Rio de Janeiro.....	94,425	80,550
12	14	Rome.....	125,175	118,920

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		GENERAL ADMINISTRATION (Continued)		
		Vote 5 (Continued)		
		ADMINISTRATION AND OPERATION (Continued)		
		(Further Details) (Continued)		
	10	Salisbury.....		71,165
9	9	Santiago.....	80,040	75,107
7	8	Santo Domingo.....	59,025	52,362
11	10	Sao Paulo.....	88,100	70,021
9		San Francisco.....	120,100	
11	11	Singapore.....	120,290	111,890
8	10	Stockholm.....	86,705	75,199
15	15	Sydney.....	131,970	123,023
9	9	The Hague.....	96,095	90,639
6	6	Tehran.....	60,900	51,971
8	8	Tel Aviv.....	70,550	63,402
16	16	Tokyo.....	188,685	168,724
12	12	Vienna.....	139,660	125,255
14	14	Washington.....	236,850	224,627
6	6	Wellington.....	79,790	67,484
23	1	Unallocated and Miscellaneous.....	1,004,830	202,555
		Amounts allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay.....		761,700
838	766		10,579,100	8,826,700
		Expenditure		
		1964-65..... \$ 6,535,844		
		1965-66..... 7,424,208		
		1966-67 (estimated)..... 9,041,000		
		CONSTRUCTION OR ACQUISITION OF BUILDINGS, LAND, EQUIPMENT AND FURNISHINGS		
		Construction or Acquisition of Buildings and Land..... (13)	100,000	165,000
		Acquisition of Equipment, Furniture and Furnishings for Residences Abroad..... (16)	125,000	85,000
		Acquisition of Motor Vehicles..... (16)	28,000	20,000
			253,000	270,000
		Expenditure		
		1964-65..... \$ 304,254		
		1965-66..... 377,529		
		1966-67 (estimated)..... 280,000		
		Total, Vote 5	10,832,100	9,096,700
		Expenditure		
		1964-65..... \$ 6,840,098		
		1965-66..... 7,801,737		
		1966-67 (estimated)..... 9,321,000		

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		GENERAL ADMINISTRATION (Continued)		
		Statutory—Trade Commissioner Service—Pensions to former locally engaged employees of offices abroad		
		Claire Roquier, France (Vote 412, Appropriation Act, No. 5, 1958).....	300	300
		Thomas Davis, West Indies (Jamaican £258) (Vote 413, Appropriation Act, No. 5, 1958).....	800	800
		Ryuji Yoshimura, Japan (Vote 391, Appropriation Act, No. 5, 1959).....	600	600
		(21)	1,700	1,700
		Vote 10—Canadian Government Exhibition Commission		
		Salaried Positions:		
		Executive, Scientific and Professional:		
1	1	Director, Canadian Government Exhibition Commission—(\$18,000-\$20,000)		
		Administrative and Foreign Service:		
6		(\$16,000-\$18,000)		
8	4	(\$14,000-\$16,000)		
	7	(\$12,000-\$14,000)		
8	1	(\$10,000-\$12,000)		
1		(\$8,000-\$10,000)		
	1	(\$6,000-\$8,000)		
		Technical, Operational and Service:		
10		(\$14,000-\$16,000)		
15	13	(\$12,000-\$14,000)		
17	21	(\$10,000-\$12,000)		
4	5	(\$8,000-\$10,000)		
8	5	(\$6,000-\$8,000)		
8	8	(\$4,000-\$6,000)		
		Administrative Support:		
2		(\$6,000-\$8,000)		
29	19	(\$4,000-\$6,000)		
2	6	(Under \$4,000)		
6	8	Local Assistance Abroad: (Full Time)		
125	99			
(125)	(99)	Continuing Establishment.....	712,000	589,500
(31)	(23)	Casuals and Others.....	127,000	92,000
(156)	(122)	Salaries and Wages (including \$55,500 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay)..... (1)	839,000	681,500
		Allowances..... (2)	22,800	7,900
		Professional and Special Services..... (4)	6,000	6,000
		Travelling Expenses..... (5)	15,000	15,000
		Freight, Express and Cartage..... (6)	4,000	4,000
		Postage..... (7)	800	800
		Telephones and Telegrams..... (8)	15,000	11,000
		Participation in Exhibitions and Displays..... (10)	4,231,000	3,336,500
		Office Stationery, Supplies and Equipment..... (11)	39,600	20,000
		Materials and Supplies..... (12)	20,000	10,000
		Repairs and Upkeep of Buildings..... (14)	5,000	10,000
		Land Rent..... (15)	3,800	3,800
		Acquisition of Equipment..... (16)	30,000	20,000
		Repairs and Upkeep of Equipment..... (17)	2,500	2,000

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		GENERAL ADMINISTRATION (Continued)		
		Vote 10 (Continued)		
		Building Taxes.....(19)	8,500	7,700
		Municipal or Public Utility Services.....(19)	2,500	2,000
		Unemployment Insurance Contributions.....(21)	9,500	6,000
		Sundries.....(22)	3,000	3,000
			5,258,000	4,147,200
		Expenditure		
		1964-65.....\$ 1,955,243		
		1965-66.....2,830,250		
		1966-67 (estimated).....4,026,650		
		Vote 15—Canadian Government Travel Bureau—To assist in promoting the tourist business in Canada including a grant of \$55,000 to the Canadian Tourist Association		
		Salaried Positions:		
		Executive, Scientific and Professional:		
1	1	Senior Officer 1 (\$16,500–\$20,500)		
		Administrative and Foreign Service:		
2		(\$16,000–\$18,000)		
8	2	(\$14,000–\$16,000)		
8	6	(\$12,000–\$14,000)		
6	4	(\$10,000–\$12,000)		
60	34	(\$8,000–\$10,000)		
	23	(\$6,000–\$8,000)		
		Technical, Operational and Service:		
1		(\$8,000–\$10,000)		
3	15	(\$6,000–\$8,000)		
8	56	(\$4,000–\$6,000)		
7	15	(Under \$4,000)		
		Administrative Support:		
2		(\$8,000–\$10,000)		
42	7	(\$6,000–\$8,000)		
91	30	(\$4,000–\$6,000)		
11	25	(Under \$4,000)		
32	32	Local Assistance Abroad: (Full Time)		
282	250	Continuing Establishment.....	1,588,000	1,365,400
(282)	(250)	Casuals and Others.....	175,000	125,000
(74)	(60)			
(356)	(310)	Salaries and Wages (including \$285,400 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay).....(1)	1,763,000	1,490,400
		Living and Rental Allowances.....(2)	415,000	415,000
		Professional and Special Services.....(4)	416,000	406,000
		Travelling and Removal Expenses.....(5)	195,000	233,000
		Freight, Express and Cartage.....(6)	135,000	100,000
		Postage.....(7)	130,000	95,000
		Telephones and Telegrams.....(8)	37,000	33,000
		Publication of Departmental Reports and Other Material.....(9)	1,624,000	1,497,000
		Exhibits, Advertising, Films, Broadcasting and Displays.....(10)	589,000	522,000
		Advertising in Foreign Newspapers, Magazines and Other Media.....(10)	3,099,000	2,784,000

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		GENERAL ADMINISTRATION (Continued)		
		Vote 15 (Continued)		
		Federal-Provincial Inter-Provincial Advertising Program..... (10)	250,000	250,000
		Special Centennial Advertising Program..... (10)	400,000	1,500,000
		Office Stationery, Supplies, Equipment and Furnishings..... (11)	427,000	296,000
		Repairs and Upkeep of Buildings..... (14)	130,000	130,000
		Rental of Offices Abroad..... (15)	275,000	263,000
		Municipal or Public Utility Services..... (19)	25,000	21,000
		Membership fees..... (20)	6,000	5,000
		Grant to Canadian Tourist Association..... (20)	55,000	55,000
		Sundries..... (22)	20,000	15,000
			9,991,000	10,110,400
		Expenditure		
		1964-65..... \$ 4,909,078		
		1965-66..... 6,332,549		
		1966-67 (estimated)..... 10,070,000		
		STANDARDS BRANCH		
		Vote 20—Administration and Operation		
		Salaried Positions:		
		Executive, Scientific and Professional:		
1	1	Director of Standards (\$18,500-\$19,500)		
2		(\$14,000-\$16,000)		
4	2	(\$12,000-\$14,000)		
1	1	(\$10,000-\$12,000)		
4	1	(\$8,000-\$10,000)		
		Administrative and Foreign Service:		
2		(\$14,000-\$16,000)		
1	2	(\$12,000-\$14,000)		
1	1	(\$8,000-\$10,000)		
	1	(\$6,000-\$8,000)		
		Technical, Operational and Service:		
2	2	(\$10,000-\$12,000)		
48	28	(\$8,000-\$10,000)		
194	207	(\$6,000-\$8,000)		
190	198	(\$4,000-\$6,000)		
		Administrative Support:		
3	1	(\$6,000-\$8,000)		
54	51	(\$4,000-\$6,000)		
25	29	(Under \$4,000)		
532	525			
(532)	(525)	Continuing Establishment.....	3,322,900	3,077,800
(4)	(4)	Casuals and Others.....	16,500	16,500
(536)	(529)	Salaries and Wages (including \$249,300 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay)..... (1)	3,339,400	3,094,300
		Professional and Special Services..... (4)	3,000	3,000
		Travelling and Removal Expenses..... (5)	284,500	253,500
		Freight and Express..... (6)	13,000	12,800
		Cartage..... (6)	280,000	274,000
		Postage..... (7)	6,600	4,800
		Telephones and Telegrams..... (8)	20,300	19,800
		Office Stationery, Supplies and Equipment..... (11)	38,800	28,350

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		STANDARDS BRANCH (Continued)		
		Vote 20 (Continued)		
		Materials and Supplies..... (12)	20,500	18,500
		Acquisition of Equipment..... (16)	293,400	439,450
		Repairs and Upkeep of Equipment..... (17)	6,900	5,300
		Short Weight Supervision..... (22)	14,600	16,000
		Sundries..... (22)	2,200	2,000
			4,323,200	4,171,800
		Expenditure Revenue		
		1964-65..... \$ 3,347,562 \$2,297,078		
		1965-66..... 3,478,260 2,298,902		
		1966-67 (estimated)..... 4,102,100 2,368,700		
		1967 WORLD EXHIBITION		
		Vote 29—Canadian Government Participation in the 1967 World Exhibition, Montreal		
		Construction and Acquisition of Buildings.....	100,000	3,183,354
		Exhibits and Displays.....	2,958,600	3,607,013
		Advertising and Publicity.....	300,200	232,050
		Special Events.....	1,216,200	623,106
		Administrative Expenses.....	469,000	455,327
		Operating Expenses.....	1,706,800	571,150
(147)	(73)	(10)	6,750,800	8,672,000
		Expenditure		
		1964-65..... \$ 839,830		
		1965-66..... 4,556,113		
		1966-67 (estimated)..... 8,672,000		
		SPECIAL		
		Statutory—Payment of carrying costs of temporary wheat reserves and payments in connection with the Prairie Grain Advance Payments Act		
		PAYMENT OF CARRYING COSTS OF TEMPORARY WHEAT RESERVES (CHAP. 2, STATUTES OF 1956)..... (20)	33,300,000	39,823,000
		Expenditure		
		1964-65..... \$ 34,022,947		
		1965-66..... 36,806,707		
		1966-67 (estimated)..... 30,044,132		

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		SPECIAL (Continued)		
		Statutory—(Continued)		
		PAYMENTS IN CONNECTION WITH THE PRAIRIE GRAIN ADVANCE PAYMENTS ACT (CHAP. 2, STATUTES OF 1957-58, AS AMENDED)..... (20)	640,000	565,000
		Expenditure		
		1964-65..... \$ 543,583		
		1965-66..... 668,604		
		1966-67 (estimated)..... 740,000		
		Total, Statutory Item.....	33,940,000	40,388,000
		Expenditure		
		1964-65..... \$ 34,566,530		
		1965-66..... 37,475,311		
		1966-67 (estimated)..... 30,784,132		
		Vote 32—Grant to the Pacific National Exhibi- tion, Vancouver, towards the cost of con- structing a trade fair and sports building at Exhibition Park, Vancouver; the Govern- ment of Canada's share not to exceed \$2,000,000..... (20)	800,000	1,200,000
		Expenditure		
		1964-65..... \$.....		
		1965-66.....		
		1966-67 (estimated)..... 1,200,000		

DOMINION BUREAU OF STATISTICS

DOMINION BUREAU OF STATISTICS

No. of Vote	Service	1967-68	1966-67	Change	
				Increase	Decrease
		\$	\$	\$	\$
1	Administration and Operation including the fee for membership in the Inter-American Statistical Institute and a contribution of \$500 to the International Statistical Institute (Details, page 75).....	23,780,900	19,004,500	4,776,400	
—	Appropriations not required for 1967-68 (Details, page 76).....		9,321,700		9,321,700
		23,780,900	28,326,200		4,545,300

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		Approximate Value of Major Services not included in these Estimates		
		Accommodation (provided by the Department of Public Works).....	1,661,600	1,134,300
		Accounting and cheque issue services (Comptroller of the Treasury).....	60,600	31,300
		Contributions to Superannuation Account (Treasury Board).....	1,038,800	609,200
		Contributions to Canada Pension Plan Account and Quebec Pension Plan Account (Treasury Board).....	267,800	151,500
		Employee surgical-medical insurance premiums (Treasury Board).....	102,700	60,300
		Employee compensation payments (Department of Labour).....	6,700	5,600
		Carrying of franked mail (Post Office Department).....	487,400	527,300
			3,625,600	2,519,500
		Vote 1—Administration and Operation including the fee for membership in the Inter-American Statistical Institute and a contribution of \$500 to the International Statistical Institute		
		Salaried Positions:		
		Executive, Scientific and Professional:		
1	1	Dominion Statistician (\$24,840)		
1	1	Senior Officer 3 (\$20,500-\$24,750)		
2	2	Senior Officer 2 (\$18,500-\$22,750)		
1	1	Senior Officer 1 (\$16,500-\$20,500)		
8	8	(\$18,000-\$20,000)		
33	33	(\$16,000-\$18,000)		
124	114	(\$14,000-\$16,000)		
111	96	(\$12,000-\$14,000)		
196	184	(\$8,000-\$10,000)		
7	7	(\$6,000-\$8,000)		
		Administrative and Foreign Service:		
4	4	(\$16,000-\$18,000)		
9	9	(\$14,000-\$16,000)		
39	21	(\$12,000-\$14,000)		
19	19	(\$10,000-\$12,000)		
92	84	(\$8,000-\$10,000)		
14	2	(\$6,000-\$8,000)		
		Administrative Support:		
7	7	(\$8,000-\$10,000)		
324	305	(\$6,000-\$8,000)		
1,451	1,258	(\$4,000-\$6,000)		
226	218	(Under \$4,000)		
		Technical, Operational and Service:		
4	4	(\$12,000-\$14,000)		
11	11	(\$10,000-\$12,000)		
66	61	(\$8,000-\$10,000)		
147	127	(\$6,000-\$8,000)		
9	5	(\$4,000-\$6,000)		
28	28	(Under \$4,000)		
2,934	2,610			

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		Vote 1 (Continued)		
(2,934)	(2,610)	Continuing Establishment.....	16,885,600	14,978,000
(269)	(137)	Casuals and Others.....	1,436,800	524,000
(3,203)	(2,747)	Salaries and Wages (including \$2,100,000 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay).....(1)	18,322,400	15,502,000
		Overtime.....(1)	211,600	180,000
		Remuneration and Expenses of Enumerators.....(4)	1,009,700	811,400
		Other Professional and Special Services.....(4)	532,300	238,500
		Travelling Expenses.....(5)	474,400	310,400
		Freight, Express and Cartage.....(6)	21,200	14,100
		Postage.....(7)	56,600	45,500
		Telephones and Telegrams.....(8)	147,200	109,200
		Printing of Publications.....(9)	857,400	579,900
		Informational Publicity and Advertising.....(10)	88,700	55,600
		Office Stationery, Supplies and Equipment.....(11)	1,394,700	764,500
		Rental of Office Equipment.....(11)	513,500	295,600
		Publication for Crop Correspondents and Miscellaneous Materials and Supplies.....(12)	88,100	35,500
		Repairs and Upkeep of Equipment.....(17)		900
		Membership Fee, the Inter-American Statistical Institute.....(20)	11,100	10,900
		Contribution to the International Statistical Institute.....(20)	500	500
		Sundries.....(22)	51,500	50,000
			23,780,900	19,004,500
		Expenditure Revenue		
		1964-65.....\$ 12,965,581 \$ 59,965		
		1965-66.....14,499,979 211,491		
		1966-67 (estimated).....19,166,074 160,000		
		Appropriations not required for 1967-68		
		1961 Decennial Census of Canada		
	(11)	Casuals and Others.....(1)		41,500
		Professional and Special Services.....(4)		75,000
		Printing of Publications.....(9)		105,200
				221,700
		1966 Quinquennial Census of Canada		
	(574)	Casuals and Others (including \$100,000 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay).....(1)		2,080,000
		Professional and Special Services.....(4)		5,566,000
		Travelling Expenses.....(5)		880,500
		Freight, Express and Cartage.....(3)		50,000
		Postage.....(7)		59,000
		Telephones and Telegrams.....(8)		32,700
		Printing of Publications.....(9)		2,500
		Advertising, Films and Broadcasting.....(10)		130,000
		Office Stationery, Supplies and Equipment.....(11)		87,300
		Rental of Office Equipment.....(11)		9,500
		Rental of Temporary Accommodation.....(15)		200,000
		Sundries.....(22)		2,500
				9,100,000
				9,321,700

APPENDIX B**NATIONAL REVENUE****MAIN ESTIMATES, 1967-68**

NATIONAL REVENUE

No. of Vote	Service	1967-68	1966-67	Change	
				Increase	Decrease
		\$	\$	\$	\$
(S)	Minister of National Revenue—Salary and Motor Car Allowance (Details, page 371)....	17,000	17,000		
	CUSTOMS AND EXCISE				
1	General Administration, Operation and Maintenance including authority, notwithstanding the Financial Administration Act, to spend revenue received during the year from firms and individuals requiring special services (Details, page 371).....	59,720,000	56,300,000	3,420,000	
	TAXATION				
5	General Administration and District Offices including recoverable expenditures on behalf of the Canada Pension Plan (Details, page 375).....	57,833,900	50,484,800	7,349,100	
	TAX APPEAL BOARD				
(S)	Salaries of Members of the Board (Details, page 377).....	113,000	113,000		
10	Administration Expenses (Details, page 377)...	193,400	179,600	13,800	
		306,400	292,600	13,800	
	SUMMARY				
	To be voted.....	117,747,300	106,964,400	10,782,900	
	Authorized by Statute.....	130,000	130,000		
		117,877,300	107,094,400	10,782,900	

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		Approximate Value of Major Services not included in these Estimates		
		Accommodation (provided by the Department of Public Works).....	11,356,700	10,134,900
		Accommodation (in this Department's own buildings)..	157,000	173,000
		Accounting and cheque issue services (Comptroller of the Treasury).....	903,900	746,900
		Contributions to Superannuation Account (Treasury Board).....	7,236,100	4,679,400
		Contributions to Canada Pension Plan Account and Quebec Pension Plan Account (Treasury Board)....	1,040,600	1,168,000
		Employee surgical-medical insurance premiums (Treas- ury Board).....	756,300	479,800
		Employee compensation payments (Department of Labour).....	39,500	24,300
		Carrying of franked mail (Post Office Department)....	551,500	412,900
			22,041,600	17,819,200
		Statutory—Minister of National Revenue—Salary and Motor Car Allowance		
		Salary.....(1)	15,000	15,000
		Motor Car Allowance.....(2)	2,000	2,000
			17,000	17,000
		CUSTOMS AND EXCISE		
		Vote 1—General Administration, Operation, and Maintenance including authority, notwith- standing the Financial Administration Act, to spend revenue received during the year from firms and individuals requiring special services		
		GENERAL ADMINISTRATION		
		Salaried Positions:		
		Executive, Scientific and Professional:		
1	1	Deputy Minister, Customs and Excise (\$24,840)		
1	2	Senior Officer 3 (\$20,500-\$24,750)		
2	2	Senior Officer 2 (\$18,500-\$22,750)		
5	4	Senior Officer 1 (\$16,500-\$20,500)		
2		(\$16,000-\$18,000)		
3		(\$14,000-\$16,000)		
3	4	(\$12,000-\$14,000)		
	4	(\$10,000-\$12,000)		
17	14	(\$8,000-\$10,000)		

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		CUSTOMS AND EXCISE (Continued)		
		Vote 1 (Continued)		
		GENERAL ADMINISTRATION (Continued)		
		Salaried Positions: (Continued)		
		Administrative and Foreign Service:		
		Program Administrator 8 (\$17,270-\$20,802)		
		(\$18,000-\$20,000)		
1		(\$16,000-\$13,000)		
7		(\$14,000-\$16,000)		
3	3	(\$12,000-\$14,000)		
13	10	(\$10,000-\$12,000)		
42	15	(\$8,000-\$10,000)		
55	49	(\$6,000-\$8,000)		
308	176	(\$4,000-\$6,000)		
25	140	Technical, Operational and Service:		
	51	(\$6,000-\$8,000)		
		(\$4,000-\$6,000)		
2	1	(Under \$4,000)		
10	22	Administrative Support:		
5	11	(\$8,000-\$10,000)		
		(\$6,000-\$8,000)		
1		(\$4,000-\$6,000)		
122	107	(Under \$4,000)		
471	333	Prevailing Rate Positions:		
147	229	(Full Time)		
		Local Assistance Abroad:		
		(Full Time)		
1	1			
11	11			
1,258	1,190	Continuing Establishment.....	8,174,000	6,734,000
(1,258)	(1,190)	Casuals and Others.....	20,000	16,000
(5)	(5)			
(1,263)	(1,195)	Salaries and Wages (including \$500,000 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay)..... (1)	8,194,000	6,750,000
		Overtime..... (1)	2,000	2,000
		Allowances..... (2)	100,000	100,000
		Professional and Special Services..... (4)	97,000	175,000
		Travelling and Removal Expenses..... (5)	624,000	300,000
		Freight and Express..... (6)	6,000	7,000
		Postage..... (7)	98,000	40,000
		Telephones and Telegrams..... (8)	82,000	61,000
		Publication of Regulations and Memoranda..... (9)	2,000	7,000
		Office Stationery, Supplies, Equipment and Furnishings..... (11)	321,000	272,000
		Materials and Supplies..... (12)	12,000	7,000
		Rental of Buildings..... (15)	14,500	13,000
		Acquisition of Equipment..... (16)	22,500	23,000
		Repairs and Upkeep of Equipment..... (17)	9,000	2,000
		Sundries..... (22)	4,000	5,500
			9,588,000	7,764,500
		Expenditure		
		1964-65..... \$ 5,854,412		
		1965-66..... 6,359,478		
		1966-67 (estimated)..... 8,267,500		

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		CUSTOMS AND EXCISE (Continued)		
		Vote 1 (Continued)		
		EXCISE TAX, EXCISE DUTY, INVESTIGATION, DRAWBACKS		
		Salaried Positions:		
		Executive, Scientific and Professional:		
1		Senior Officer 3 (\$20,500-\$24,750)		
2	1	Senior Officer 1 (\$16,500-\$20,500)		
4	4	(\$16,000-\$18,000)		
22	4	(\$14,000-\$16,000)		
38	18	(\$12,000-\$14,000)		
136	29	(\$10,000-\$12,000)		
247	369	(\$8,000-\$10,000)		
	136	(\$6,000-\$8,000)		
		Administrative and Foreign Service:		
		Program Administrator 8 (\$17,270-\$20,802)		
1		(\$18,000-\$20,000)		
11	2	(\$14,000-\$16,000)		
10	3	(\$12,000-\$14,000)		
22	5	(\$10,000-\$12,000)		
54	28	(\$8,000-\$10,000)		
333	61	(\$6,000-\$8,000)		
175	206	(\$4,000-\$6,000)		
	31	Administrative Support:		
		(\$8,000-\$10,000)		
65		(\$6,000-\$8,000)		
254	307	(\$4,000-\$6,000)		
283	165	(Under \$4,000)		
41	54			
1,699	1,423	Continuing Establishment.....	11,923,000	10,280,000
(1,699)	(1,423)	Casuals and Others.....	21,000	18,000
(7)	(6)			
(1,706)	(1,429)	Salaries and Wages (including \$1,500,000 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay).....(1)	11,944,000	10,298,000
		Overtime.....(1)	90,000	90,000
		Law and Other Costs.....(4)	100,000	
		Travelling and Removal Expenses.....(5)	878,000	775,000
		Freight and Express.....(6)	15,000	13,000
		Postage.....(7)	32,000	10,300
		Telephones and Telegrams.....(8)	20,000	19,000
		Publication of Regulations and Memoranda.....(9)	15,500	3,000
		Office Stationery, Supplies, Equipment and Fur- nishings.....(11)	164,000	109,000
		Other Materials and Supplies.....(12)	3,500	3,500
		Customs Excise Stamps and Labels.....(12)	836,000	800,000
		Rental of Buildings.....(15)		1,500
		Acquisition of Equipment.....(16)	4,500	11,000
		Repairs and Upkeep of Equipment.....(17)	1,500	3,000
		Sundries.....(22)	3,000	5,000
			14,107,000	12,141,300
		Less—Amount recoverable from firms requiring special services.....(34)	500,000	420,000
			13,607,000	11,721,300
		Expenditure		
		1964-65.....\$ 8,734,122		
		1965-66.....9,889,308		
		1966-67 (estimated).....11,581,800		

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		CUSTOMS AND EXCISE (Continued)		
		Vote 1 (Continued)		
		PORTS—OPERATION AND MAINTENANCE INCLUDING AUTHORITY, NOTWITHSTANDING THE FINANCIAL ADMINISTRATION ACT, TO SPEND REVENUE RE- CEIVED DURING THE YEAR FROM FIRMS AND INDIVIDUALS REQUIRING SPECIAL SERVICES		
		Salaried Positions:		
		Administrative and Foreign Service:		
2	2	(\$18,000-\$20,000)		
4		(\$14,000-\$16,000)		
15	4	(\$12,000-\$14,000)		
75	16	(\$10,000-\$12,000)		
117	98	(\$8,000-\$10,000)		
51	155	(\$6,000-\$8,000)		
	7	(\$4,000-\$6,000)		
		Technical, Operational and Service:		
111	118	(\$4,000-\$6,000)		
6	24	(Under \$4,000)		
24		(Part Time)		
		Administrative Support:		
73		(\$8,000-\$10,000)		
2,902	2,904	(\$6,000-\$8,000)		
2,023	1,895	(\$4,000-\$6,000)		
222	443	(Under \$4,000)		
1		(Part Time)		
46		(Seasonal)		
9	9	Prevailing Rate Positions: (Full Time)		
5,681	5,675	Continuing Establishment.....	33,345,000	33,734,000
(5,661)	(5,653)	Casuals and Others.....	528,000	404,000
(130)	(97)			
(5,791)	(5,750)	Salaries and Wages (including \$3,900,000 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay).....(1)	33,873,000	34,138,000
		Overtime.....(1)	1,000,000	1,219,000
		Allowances.....(2)	192,000	180,000
		Professional and Special Services.....(4)	44,000	43,000
		Travelling and Removal Expenses.....(5)	480,000	415,000
		Freight, Express and Cartage.....(6)	78,000	80,000
		Postage.....(7)	200,000	155,000
		Telephones and Telegrams.....(8)	198,000	165,000
		Publication of Regulations and Memoranda.....(9)	40,000	35,000
		Office Stationery, Supplies, Equipment and Fur- nishings.....(11)	933,000	568,200
		Uniforms.....(12)	345,000	260,000
		Other Materials and Supplies.....(12)	81,500	64,000
		Construction or Acquisition of Buildings and Works, including Acquisition of Land.....(13)	260,000	270,000
		Repairs and Upkeep of Buildings and Works.....(14)	130,000	130,000
		Rental of Buildings.....(15)	15,000	11,000
		Acquisition of Equipment.....(16)	77,500	111,000
		Repairs and Upkeep of Equipment.....(17)	11,000	11,000
		Municipal or Public Utility Services.....(19)	60,000	50,000
		Sundries.....(22)	7,000	9,000
			38,025,000	37,914,200
		Less—Amount recoverable from firms and individ- uals requiring special services.....(34)	1,500,000	1,100,000
			36,525,000	36,814,200

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		CUSTOMS AND EXCISE (Continued)		
		Vote 1 (Continued)		
		PORTS—OPERATION AND MAINTENANCE INCLUDING AUTHORITY (Continued)		
		Expenditure		
		1964-65.....	\$ 29,643,539	
		1965-66.....	31,441,223	
		1966-67 (estimated).....	35,584,500	
		Total, Vote 1.....	59,720,000	56,300,000
		Expenditure Revenue		
		1964-65.....	\$ 44,232,073 \$1,851,538	
		1965-66.....	47,690,014 2,051,652	
		1966-67 (estimated).....	55,433,800 2,000,000	
		TAXATION		
		Vote 5—General Administration and District Offices including recoverable expenditures on behalf of the Canada Pension Plan		
		GENERAL ADMINISTRATION		
		Salaried Positions:		
		Executive, Scientific and Professional:		
		Deputy Minister, Taxation (\$24,840)		
		Senior Officer 3 (\$20,500-\$24,750)		
		Senior Officer 2 (\$18,500-\$22,750)		
		Senior Officer 1 (\$16,500-\$20,500)		
		Administrative and Foreign Service:		
		(\$18,000-\$20,000)		
		(\$16,000-\$18,000)		
		(\$14,000-\$16,000)		
		(\$12,000-\$14,000)		
		(\$10,000-\$12,000)		
		(\$8,000-\$10,000)		
		(\$6,000-\$8,000)		
		Technical, Operational and Service:		
		(\$6,000-\$8,000)		
		(\$4,000-\$6,000)		
		(Under \$4,000)		
		Administrative Support:		
		(\$6,000-\$8,000)		
		(\$4,000-\$6,000)		
		(Under \$4,000)		
1	1			
1	1			
2	2			
4	5			
10	10			
7	21			
66	48			
75	41			
106	108			
154	177			
21	18			
1	1			
8	7			
12	12			
10	9			
179	167			
94	93			
751	721			
(751)	(721)			
(24)	(24)			
(775)	(745)			
		Continuing Establishment.....	5,171,800	4,721,500
		Casuals and Others.....	85,000	72,000
		Salaries and Wages (including \$518,500 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay).....(1)	5,256,800	4,793,500
		Professional and Special Services.....(4)	135,300	126,300
		Law Costs.....(4)	125,000	125,000
		Travelling Expenses.....(5)	410,000	317,500
		Freight, Express and Cartage.....(6)	5,000	3,500
		Postage.....(7)	14,000	12,000

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		TAXATION (Continued)		
		Vote 5 (Continued)		
		GENERAL ADMINISTRATION (Continued)		
		Telephones and Telegrams..... (8)	70,000	45,000
		Informational Services..... (10)	700,000	519,700
		Office Stationery, Supplies and Equipment..... (11)	143,000	103,200
		Expenditures chargeable to the Canada Pension Plan Account for services normally rendered by other Departments free of charge..... (22)	400,000	344,100
		Sundries..... (22)	5,500	3,500
			7,264,600	6,393,300
		Less: Amount recoverable from the Canada Pension Plan Account..... (34)	938,000	939,400
			6,326,600	5,453,900
		Expenditure		
		1964-65..... \$ 4,416,713		
		1965-66..... 5,307,269		
		1966-67 (estimated)..... 5,732,940		
		DISTRICT OFFICES		
		Salaried Positions:		
		Administrative and Foreign Service:		
		Director 7, Taxation (\$21,000-\$22,000)		
2	2	(\$18,000-\$20,000)		
11	9	(\$16,000-\$18,000)		
5	2	(\$14,000-\$16,000)		
92	72	(\$12,000-\$14,000)		
333	277	(\$10,000-\$12,000)		
553	508	(\$8,000-\$10,000)		
1,823	1,893	(\$6,000-\$8,000)		
1,053	1,002	Technical, Operational and Service:		
		(\$4,000-\$6,000)		
6	6	(Under \$4,000)		
18	18	Administrative Support:		
		(\$8,000-\$10,000)		
5	5	(\$6,000-\$8,000)		
94	90	(\$4,000-\$6,000)		
2,289	2,198	(Under \$4,000)		
1,252	1,238	(Seasonal)		
44	72			
7,580	7,392	Continuing Establishment.....	42,834,600	40,515,000
(7,551)	(7,343)	Casuals and Others.....	5,150,000	3,292,000
(1,493)	(1,172)			
(9,044)	(8,515)	Salaries and Wages (including \$4,608,000 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay)..... (1)	47,984,600	43,807,000
		Allowances..... (2)	8,700	8,400
		Law Costs..... (4)	285,000	250,000
		Other Professional and Special Services..... (4)	262,000	226,000
		Travelling Expenses..... (5)	1,800,000	1,908,000
		Freight, Express and Cartage..... (6)	160,000	105,000
		Postage..... (7)	1,032,000	983,000
		Telephones and Telegrams..... (8)	335,000	273,000
		Publication of Departmental Reports..... (9)	208,000	248,500

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		TAXATION (Continued)		
		Vote 5 (Continued)		
		DISTRICT OFFICES (Continued)		
		Informational Services.....(10)	7,000	7,000
		Office Stationery, Supplies and Equipment.....(11)	3,985,000	3,107,200
		Materials and Supplies.....(12)	5,000	4,000
		Municipal or Public Utility Services.....(19)	12,000	11,000
		Registry Searches.....(22)	9,000	9,500
		Sundries.....(22)	27,000	25,000
			56,120,300	50,972,600
		Less: Amount recoverable from The Canada Pension Plan Account (\$4,598,000) and a portion of the amount recoverable for computer service (\$15,000).....(34)	4,613,000	5,941,700
			51,507,300	45,030,900
		Expenditure 1964-65.....\$ 37,985,467		
		1965-66.....41,688,355		
		1966-67 (estimated).....46,538,505		
		Total Vote 5.....	57,833,900	50,484,800
		Expenditure 1964-65.....\$ 42,402,180		
		1965-66.....46,995,624		
		1966-67 (estimated).....52,271,445		
		TAX APPEAL BOARD		
		Statutory—Salaries of Members of the Board— (Chap. 148, R.S. as amended)		
1	1	Chairman (\$22,000)		
1	1	Assistant Chairman (\$19,000)		
4	4	Member (\$18,000)		
6	6			
(6)	(6)	Salaries.....(1)	113,000	113,000
		Vote 10—Administration Expenses		
		Salaried Positions:		
		Administrative and Foreign Service:		
		(\$12,000-\$14,000)		
		(\$8,000-\$10,000)		
		Administrative Support:		
		(\$6,000-\$8,000)		
		(\$4,000-\$6,000)		
		(Under \$4,000)		
1	1			
2	2			
7	7			
5	5			
1	1			
16	16			

Positions (man-years)		Details of Services	Amount	
1967-68	1966-67		1967-68	1966-67
			\$	\$
		TAX APPEAL BOARD (Continued)		
		Vote 10 (Continued)		
(16)	(16)	Salaries (including \$8,100 allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay).....(1)	101,400	96,600
		Court Reporters' Fees.....(4)	46,000	46,000
		Travelling Expenses.....(5)	27,000	25,000
		Telephones and Telegrams.....(8)	2,000	2,000
		Office Stationery, Supplies and Equipment.....(11)	15,000	8,000
		Sundries.....(22)	2,000	2,000
			193,400	179,600
		Expenditure		
		1964-65..... \$ 141,756		
		1965-66..... 165,000		
		1966-67 (estimated)..... 175,000		

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

THURSDAY, JUNE 8, 1967

STATEMENT BY:

The Honourable Robert H. Winters, Minister of Trade and Commerce.

WITNESSES:

From the Department of Trade and Commerce: Messrs. Maurice Schwarzmann, Assistant Deputy Minister (Trade Policy); T. R. G. Fletcher, Assistant Deputy Minister (Trade Promotion).

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON
FINANCE, TRADE, AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Addison,
Ballard,
Cameron (*Nanaimo-
Cowichan-The Islands*),
Chrétien,
Flemming,
Fulton,
Gilbert,

Irvine,
Laflamme,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),
Mackasey,

McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Tremblay,
Valade,
Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 8, 1967.

(2)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Flemming, Gray, Laflamme, Lambert, Latulippe, Lind, Macdonald (*Rosedale*), Monteith, Tremblay (*Matapédia-Matane*), Wahn—(13).

In attendance: The Honourable Robert H. Winters, Minister of Trade and Commerce; M. J.-C. Cantin, Parliamentary Secretary to the Minister of Trade and Commerce. *From the Department of Trade and Commerce:* Messrs. Maurice Schwarzmans, Assistant Deputy Minister (Trade Policy); T. R. G. Fletcher, Assistant Deputy Minister (Trade Promotion); L. J. Rodger, Comptroller-Secretary; V. J. Macklin, Director, Economics Branch; L. L. Marks, Chief, Financial Services Division; Marcel Legris, Director, Personnel Branch; R. E. Latimer, Director General, Trade Relations; A. C. Abbott, Executive Assistant to the Minister; B. F. Armishaw, Executive Assistant to the Deputy Minister; H. T. Aitken, President and General Manager, Export Credits Insurance Corporation.

The Chairman announced that, in accordance with the resolution passed at the last meeting, he had appointed the following as members of the Subcommittee on Agenda and Procedure (in addition to the Chairman and Vice-Chairman): Cameron (*Nanaimo-Cowichan-The Islands*), Lambert, Latulippe, Leboe, Lind, Monteith, Wahn.

The Committee then proceeded to consideration of the Estimates of the Department of Trade and Commerce in accordance with the Order of Reference of May 25, 1967.

The Chairman called Item 1:

Departmental Administration including fees for membership in the International Organizations listed in the Details of the Estimates \$8,429,500

and invited the Minister to make an opening statement.

The Minister introduced the officials, made a statement concerning the operations of his Department, and was questioned. He was assisted in answering questions by Messrs. Schwarzmans and Fletcher.

The questioning continuing, at 12.55 p.m. the Committee adjourned until 11.00 a.m., Tuesday, June 13, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, 8 June, 1967

The Chairman: Gentlemen, I call this meeting to order.

The order of business today is to begin our study of the main estimates of the Department of Trade and Commerce.

Before calling upon the Minister and the others present in that connection I have to announce the members of the Steering Committee. In addition to myself and the Vice-Chairman, they are Mr. Lind, Mr. Wahn, Mr. Lambert, Mr. Monteith, Mr. Colin Cameron, Mr. Leboe and Mr. Latulippe.

I now call item one.

1. Departmental administration including fees for a membership in the Super-national Organizations listed in the details of the estimates, \$8,429,500.

I suggest that we follow the same procedure that we used with the estimates last time; it seemed to be quite satisfactory.

We will begin with a statement from the Minister, after which we will have questioning and exchanges between the Minister and members of the Committee. After we have had several rounds of general discussion we will excuse the Minister and proceed to the specific votes, at which time we will hear from the officials responsible for the aspects of departmental work under the headings of the particular votes. Finally, we will recall the Minister to complete item one and ask him to deal with any matters that have been stood or otherwise put aside for his disposition in the course of our consideration.

I now call upon the Minister of Trade and Commerce to make his opening statement.

Hon. Robert H. Winters (Minister of Trade and Commerce): Thank you, Mr. Chairman and honourable members.

A great deal has happened since I had the privilege of appearing before you last year, Mr. Chairman. I am glad to be back again with Mr. Cantin, my parliamentary secretary, and the officials of the Department, to tell you something of what has gone on. My statement, therefore, will be rather lengthy. I

should say that I have with me Mr. Schwarzmann and Mr. Rodger.

Speaking to the Committee in May 1966—

Mr. Lambert: On a point of order, Mr. Chairman.

The Chairman: Yes.

Mr. Lambert: Is it possible that at some time within the next 24 hours we could have a copy of the Minister's statement?

Mr. Winters: It is being duplicated now. I finished this just a moment before I came over here.

Mr. Monteith: With a little revising?

Mr. Winters: No; no revising, just writing. The reason for that is that it was just two days ago that I learned that I was to come here.

The Chairman: Yes; and I think we should commend the Minister and his officials for preparing for a study of these estimates on rather short notice. It may be that having been written up to the last minute his report will be more up to date than it might otherwise have been.

Mr. Winters: I would hope that before I finish presenting my report there will be copies available for members.

Last May I reported that figures available for the first quarter of the year showed exports up 20 per cent compared with the same period in 1965. For the full calendar year, exports were up by 18 per cent and reached an annual level in excess of \$10.3 billion for the calendar year 1966.

Last fall I set a target figure of \$11½ billion for exports for 1967, our centennial year. This target was considered a particularly challenging one by most analysts at the time, but was fully endorsed by the Canadian Exporters' Association and others in the export community.

Notwithstanding slower economic growth this year in some of our principal export markets, particularly the United States and the European Economic Community, figures for the first four months of the year showed

exports up 17 per cent, or \$ $\frac{1}{2}$ billion, compared with the same period of 1966. This means that more than half of the projected increase for the year has already been achieved.

Even allowing for a diminution in the strength of some of the forces contributing to this early-year expansion, it is likely that the \$11 $\frac{1}{4}$ billion target will be realized and possibly exceeded. This would represent a creditable showing in a year characterized by significantly slower growth in world trade as a whole.

Because of their prominence in Canadian industry, the performance of foreign-owned companies in our export and economic development generally is of major importance to the economy. Last year I reported to the Committee on steps taken to provide guidance to foreign-owned subsidiaries concerning their responsibilities in the Canadian community. Letters setting out "Some Guiding Principles of Good Corporate Behaviour" were sent to about 3,300 companies wholly or largely foreign-owned. Subsequently, the companies were asked for their general reaction to the principles and the extent to which they conform. Some 1,900 replies have now been received, representing about 2,500 companies. As I reported to the House of Commons on November 18th last, the replies indicate that there is already a broad measure of conformity with the "Guiding Principles". At the same time, many companies have stated their intention to take new steps in line with the objectives proposed, and to work progressively towards these objectives. Other companies, while indicating for the most part approval of the basic intent of the "Guiding Principles", have expressed the view that certain of the principles should not apply in all circumstances.

Subsequent to the issuance of the "Guiding Principles" larger foreign-owned subsidiaries were asked to submit factual information on certain aspects of their operations and financing. The results of this survey, showing aggregate figures for the years 1964 and 1965, are contained in a report just released today entitled, "Foreign-owned Subsidiaries in Canada". The highlights of the survey results are summarized in a press statement released with the report. I understand that some of that material, in kits, has been provided to the Committee.

The replies to the "Guiding Principles" letter and the survey results taken together provide a good deal of useful information on the

performance and contribution of these companies in the Canadian economy.

To deal with the Kennedy Round, on May 15th I was able to announce that basic agreements had been reached in Geneva and that the hard and difficult bargaining on which the success or failure of the Kennedy Round depended had been successfully concluded.

As you know, I attended several times and was able to be there for the last four or five difficult days of the discussions, which were most interesting. Details about the agreement reached, involving reductions in the rates of duty affecting many thousands of items in the tariff schedules of the participating countries, will not be completed much before the end of June. After that, full information about the concessions obtained from other countries will be announced and the concessions offered by Canada will be put before the House.

As for the timing of the actual implementation of these tariff cuts, this has yet to be decided. However, it is unlikely that the Kennedy Round results will be made operative until January of next year at the earliest. In the case of the United States and various other countries most of the tariff reductions will be phased over a period of four to five years. Canada's concessions will undoubtedly be phased as well. However, ours were on a selective basis, and the phasing in each instance has yet to be determined; but they will undoubtedly be stretched out in most instances.

The signature of the Final Act of the Kennedy Round agreement is scheduled to take place in Geneva on June 30th. The interim period will be required for drawing up the detailed schedules of concessions which each country has negotiated with all the other countries, checking them for accuracy and putting them into precise legal form.

As for wheat, the Kennedy Round Cereals Group is meeting this week in Geneva, with the participation of the original signatories of the cereals arrangement as well as all the other GATT countries interested in joining the arrangement, including a number of less developed countries. The Group is considering the most appropriate arrangements and timing for the translation and extension of the agreement reached in the Kennedy Round into a new World Agreement which would include all countries, whether GATT or non-GATT members, who have signified their interest in wheat trade.

As I said yesterday in reply to a question in the House, a meeting, to be held in London on

June 19, has been called under the auspices of the International Wheat Agreement.

It will now be necessary to enter into a second phase of negotiation to provide for the association of such countries with the new cereals agreement, to elaborate the detailed provisions related to price and food aid, and to set up the institutional framework to bring the agreement into effect as soon as possible. Canada attaches special importance to the participation of the Soviet Union in these negotiations as a means of further strengthening the close relationships we have built up with that country in the field of international wheat co-operation. Once the new agreement has been completed, it will be submitted to the House for approval in the usual way.

A complete review of the broad results achieved will have to await the full examination of all the concessions negotiated by other countries, and these details are only now becoming available to our delegation in Geneva.

However, I can confirm that by and large most of the tariff cuts agreed by the U.S. and by other major industrial countries are of the order of 50 per cent from present rates of duty. Thus, when the Kennedy Round results are implemented, it is estimated that the average U.S. tariff for manufactured goods, with the exception of one or two specialized sectors, will be below 10 per cent. The EEC tariff for most industrial goods will probably be around 8 per cent. This general and substantial lowering of tariff barriers over a very wide range of manufactured goods in our major export markets will be of special benefit to Canadian secondary industry. It is in this field that Canadian exports, while still relatively small, have been growing fastest. Improved access to world markets should make possible the kind of breakthrough which we need, in terms of economies of scale and increased specialization.

The total value of Canadian exports, including wheat, which will be favourably affected by the results of the Kennedy Round, is estimated at well over \$3 billion. All sectors of the Canadian economy will benefit.

Canada's most important direct negotiation in the Kennedy Round was with the United States, as our major trading partner. This negotiation was in itself one of the most significant and extensive within the entire Kennedy Round. Well over \$1.5 billion of Canadian exports will benefit from 50 per cent cuts, and in many cases from complete elimination of tariffs, in those products alone where Canada is already the main supplier to

the U.S. It will be recalled that the U. S. was empowered by its legislation to eliminate tariffs on items where present duties are 5 per cent or less. This applied in particular to a number of important products in such fields as forest products, fisheries and agriculture. The results under this broad heading have been gratifying.

In addition to the wide range of products where Canada is the main supplier to the U.S., important benefits will also be forthcoming in those many fields where Canada is as yet a relatively minor or only a potential supplier to the U.S. market. For example, in its negotiations with the EEC, the U.S. has agreed to seek Congressional authority to repeal the American selling price valuation system now applicable to benzenoid chemicals. This, if achieved, will result in a reduction of the effective levels of protection over a large number of organic chemicals, including some petrochemicals, much below the normal 50 per cent cut. Although Canadian producers are not now generally able to sell these products competitively in the U.S., elimination of this valuation system should have important implications for the long-run development of markets by the Canadian chemical industry.

This matter of the American selling price and the tariffs on chemicals was one of the most difficult and key negotiations in the entire Kennedy Round.

Apart from its negotiations with the U.S., Canada also conducted direct negotiations with the U.K., Japan, the EEC and other Western European countries as well as with a number of less developed countries, particularly in Latin America. In the EEC, concessions of interest to Canada, outside of wheat, will probably cover well over \$100 million of exports, including some \$20 million in agriculture and fisheries, and over \$30 million in manufactured goods, where Canada is a small but growing supplier to the EEC. Not all our major objectives have been achieved in our direct negotiations with the Community, but a significant step forward has been taken in opening the way for Canadian exports to share more fully in the rapid market growth of this new and massive trading area.

In Japan, we can look forward to tariff cuts covering over \$30 million on those industrial commodities where Canada is currently a significant supplier. Furthermore, for the first time since the war, the Japanese tariff has now been negotiated and reduced on many semi-processed and manufactured products of

potential interest to Canada. Much of our present export trade to Japan is, of course, in the field of primary materials which have traditionally entered duty-free, and this is being fully maintained.

We are planning to release a detailed analysis of all the tariff concessions of interest to Canada as soon as the Kennedy Round results are formally announced at the end of June. Arrangements are also being made to consult with interested business groups and trade associations, and to communicate directly with individual firms on items of special concern to them.

We will do everything possible to ensure that Canadian exporters and potential exporters are made aware without delay of the new opportunities available to them, so that they can begin planning their own production and marketing programs accordingly.

It is, of course, basically up to private enterprise to exploit and develop these new trade perspectives and to improve their own competitive capabilities so as to achieve substantial and sustained export gains. At the same time, I will see to it that our Department's trade promotion policies, including trade missions, trade fairs and the day-to-day, continuing activities of our Commodity Officers at home and of our Trade Commissioners around the world, are geared to provide maximum assistance to our export industries in the light of the Kennedy Round results.

Honourable members will recognize, of course, that to gain these concessions in foreign markets we had to make cuts in our tariff and provide marketing opportunities in Canada on what other countries in their bargaining process regarded as being on a matching basis.

We had the advantage of being exempt from the linear cuts—ours were on a selective basis—and we were therefore able to protect our basic industry to a greater extent than were some of the other countries. I hope that when this all comes out it will be found that our industry is not too severely dislocated and that the concessions we had to give were in those areas where we can best stand a dislocation. I do not know whether, in another round of negotiation of this order of magnitude—if indeed there is another one—we will be able to negotiate on a selective basis, but it was certainly a substantial achievement by my predecessors to get that concession for Canada.

Now, a major development, Mr. Chairman, since I last reported to the Committee was the

meeting of the heads of governments of the Commonwealth Caribbean countries and Canada in Ottawa last July. On the trade side, agreement was reached on a protocol to the 1925 Canada-West Indies Trade Agreement. This protocol provides for the continuation of preferential tariff treatment between Canada and the Commonwealth Caribbean countries, and envisages a general review of the Trade Agreement at an appropriate opportunity. In addition, special provisions were made reflecting Canada's particular interest in the Commonwealth Caribbean market for flour and codfish.

With respect to sugar, the Commonwealth Caribbean countries are particularly concerned over the continuing depressed prices on world markets and the difficulties they are experiencing in maintaining their historic position in the Canadian market.

I am sure they are gratified that in the last few weeks the price of sugar in world markets has strengthened to the point where we are now starting to get representations from users of sugar that the price is too high. Actually, in relation to cost of production in some of these depressed countries it is still relatively low.

However, at the July conference, proposals were made whereby the impediment of the Canadian tariff, which amounts to some 29 cents per cwt., would be removed with respect to the historic level of Commonwealth Caribbean raw sugar sales to the Canadian market. These have averaged annually some 275,000 tons over the past five years. Administrative details on the implementation of this special accommodation are being worked out with the Commonwealth Caribbean countries concerned, and imports from the Commonwealth Caribbean countries commencing January 1st of this year will benefit.

We are also working actively for the negotiation of a new international sugar agreement designed to strengthen the international sugar market and yields a fair price to producers and consumers. We are hopeful that it will be possible to convene an international sugar conference before the end of the year.

We have also been active in carrying forward our trade agreements programme with the countries of Eastern Europe. During a visit to the Soviet Union in June, 1966, I had the privilege of concluding a further three-year trade agreement with the Soviet Union. Agreement was also concluded for purchases

by the Soviet Union of some 336 million bushels of wheat during the three-year period of the agreement.

A new long-term wheat agreement was signed with Poland, providing for Canadian exports totalling 33 million bushels of wheat to that country for a further three-year period from July of last year. More recently, negotiations were completed here in Ottawa for an extension of the Canada-Bulgaria Trade Agreement, under which the Bulgarians have undertaken to purchase a minimum of 7.4 million bushels of wheat during the next three years, with an option on a further 3.7 million bushels. We are currently engaged in negotiations with Hungary, looking to a renewal of the 1964 Agreement for a further three years. Preliminary discussions have also been held with Roumania, but these have not reached the point where formal trade negotiations could appropriately be commenced.

These negotiations, with the exception of Roumania, are being held pursuant to visits which I and some of our officials paid to those countries last year, during which I think we all concluded that there were opportunities for the trade which we are pursuing in those areas.

It was a matter of interest and perhaps of gratification to us that at the last meeting of the OECD the Americans introduced a resolution asking the countries to support further trade opportunities with these eastern countries of the Soviet block. We of course, were glad to support that, not as an American initiative—because we have gone a long way ahead of them on this—but because it is an area in which we think trading should develop.

Efforts are also being made to establish full participation of Poland in the General Agreement on Tariffs and Trade. Yugoslavia has already become a full member of GATT.

A trade agreement was also signed in Ottawa on December 20 with Korea, providing the exchange of most-favoured-nation treatment between our two countries. In addition, Canada strongly supported Korea's accession to the General Agreement on Tariffs and Trade which became effective April 14th. Trade discussions are taking place with Thailand, looking to the early conclusion of a most-favoured-nation trade agreement with that country, and we are engaged in discussions with Ireland with a view to adjusting Canada-Irish trade agreement relations in the

light of the free trade agreement between the United Kingdom and Ireland announced in July (1966).

Looking to the future, in addition to the Canada-West Indies Trade Agreement of 1925, our preferential agreements with Australia and New Zealand will also come up for review. Apart from these particular agreements, we shall be looking to further means of broadening and deepening international trade co-operation throughout the world. The second meeting of the United National Conference on Trade and Development will be taking place in India in February of next year. This Conference will focus attention particularly on the trade and development problems of the less-developed countries whose needs call for urgent attention by all concerned.

I think this is an area which will have to receive the greatest attention in trade negotiations from now on.

In addition, we all have important interests in the renewed British application for membership in the European Economic Community.

These have been the major points of concern and activity in respect of trade policy. I would now like to focus on some of the more prominent aspects of our program of trade promotion.

In February last, I announced the formation of an Export Advisory Council comprised of senior industrialists and businessmen, and a representation of universities, together with the presidents of major trade associations. I have asked the Council to serve in an advisory capacity to me on our export promotion programme and in regard to any related new departures in the Department's services and facilities. I have invited each individual member to give leadership within their respective industrial and business sectors and associations, and to guide fresh initiative in export development. This they are doing.

The Council has held two meetings—one in February and one in May—and is already at work through the committees appointed to study specific areas of trade promotion problems. I have invited them, as well as the officials of the export credit insurance corporation, to make suggestions on how the facilities of this credit-granting institution might be broadened in support of our export effort.

One working committee has studied our promotion programmes and has made some very useful recommendations. As a result, the

Department has advanced its programme of seminars to make them more varied and more adapted to group and trade and industry association interests. Our long-established liaison with associations will be enlarged, and we will assist in the formation of export committees; in this way, also, better communications will be established with groups and associations and better programming of activities achieved.

A working committee of Council members is also studying the means of combining industry efforts in all fields to penetrate foreign markets better. Another committee is giving its attention to the use of consulting engineering services in expanding exports of Canadian machinery and equipment for incorporation into projects of foreign countries.

A major undertaking this year has been Operation Export 1967, a trade promotional project under which a group of 65 senior Canadian Government Trade Commissioners from the offices of the Department of Trade and Commerce abroad visited major business centres across Canada.

The objective of Operation Export 1967 was to stimulate further interest in export opportunities and to provide a means by which Canadian businessmen—either active or potential exporters—could meet privately with trade commissioners to discuss personally the export prospects and problems of their companies.

Interviews began in Montreal on April 17 and ended in Saint John's, Newfoundland, on June 5. Each of the following business centres was visited: Montreal, Vancouver, Edmonton, Saskatoon, Winnipeg, Toronto, Halifax and Saint John, New Brunswick.

Detailed statistical analyses have not yet been completed, but some 2,250 firms booked more than 16,000 interviews with the trade commissioners during their seven-week tour across Canada. Of considerable significance is the estimate that over half of these firms are new in the export field.

By going to the business areas we were able to provide trade facilities to companies that could not otherwise afford to seek them. Many of these companies are small; they have no sales departments; they have no market analysis facilities; they could not contemplate visits to markets; they could not even contemplate visits to Ottawa.

By taking the facilities to them we, in effect, provided them, on a short term, on-the-site basis, with an export department of which they took full advantage. We uncov-

ered a great many companies which had never been in the export field before, or had never been able to contemplate exporting.

It remains to be seen what exports do develop, but it is a fact that a great deal of correspondence is already on the desks of our offices abroad, furthering the potential that has been developed by these smaller companies which have never before contemplated exporting.

As you know, it is the accumulation of all these small efforts that results in a national effort, and we are hopeful that good business will develop.

In addition, on May 25 and 26, trade commissioners participated in a series of four export seminars sponsored by the Business Development Bureau of EXPO '67, the Department and various trade associations. Approximately 400 businessmen participated in one or more of these seminars.

The Department of Trade and Commerce maintains 70 offices abroad located in 49 countries. The Trade Commissioner Service numbers 210 officers, of which 154 are currently serving abroad, 30 undergoing training in Ottawa and the balance serving with the Department in Ottawa.

In April, a regional office was opened in the city of Toronto, thereby extending departmental services to a total of eight major trading centres in Canada.

Through an advertising campaign, we have endeavoured to enlist the support of Canadian firms which have not previously ventured into export markets, by describing the assistance available from the Department, citing export success stories of various Canadian companies and calling attention to the new telephone network which makes it possible for businessmen anywhere in Canada to contact the Department's nearest regional office, toll-free, by placing a telephone call through their long distance operator to the number ZENITH 0-1967.

Operation Export was treated as one phase of the Department's ESP programme—aimed at translating the Export Sales Potential of Canadian firms into Export Selling Power by encouraging them to join the Department in an Export Sales Partnership.

The purpose of the Business Development Bureau of EXPO '67 is to exploit the possibilities arising from EXPO '67 to foster trade and industrial development. Stated in terms of practical programmes, the objectives are:

a) to stimulate interest in EXPO among the businessmen of the world with the object of having them attend the Exhibition in the largest numbers possible and, while in Canada, explore or expand business relations with their Canadian counterparts;

b) on the Exhibition site, to provide facilities to receive business visitors to give them counsel and advice according to their interest and guide them to the existing business services within government and industry.

Trade Commissioners at all posts abroad have been assisting in attracting overseas business visitors—in excess of 1,600 individual overseas business visits and over 260 group visits have been pre-arranged.

To assist in the provision of on-site counselling facilities, the Department is providing, on an over-lapping rotational basis, three trade commissioners to assist in staffing the Bureau. A total of 41 Canadian Trade Commissioners will return to Montreal from posts abroad to take part in this programme between April 16th and November 4th.

The counselling programme of the Bureau has already proven most successful. During the first four weeks of operation, the Bureau has held 435 individual business interviews as a result of which more than 1,800 individual appointments with Canadian businessmen have been arranged. This programme not only assists the Bureau in meeting its counselling requirements, it also provides the Trade Commissioner Service and the Department with an opportunity to obtain the first-hand experience necessary to ensure the effective follow-up of the export opportunities presented by EXPO '67.

In the fiscal year 1966-67, two new posts of the Trade Commissioner Service were established; in September 1966 in San Francisco, to take care of the increasingly large Western U.S. market for Canadian products and in February 1967, Nairobi, Kenya, an office was opened to extend trade promotional efforts among a number of developing countries in Central and East Africa.

In April 1967, trade representation in Eastern Europe was increased by the opening of a trade post in Belgrade, Yugoslavia, and in May 1967, an officer was added to the Permanent Mission of Canada to the United Nations in New York City. The New York appointment is designed to assist Canadian consulting engineers and manufacturers in taking advantage of trade opportunities pre-

sented by the United Nations and other international aid development agencies.

In a number of commodities during the years problems of scarcity of supply are continuing, due principally to unprecedented levels of demand. Nickel supply has become quite tight in the past year. Canadian nickel producers in general are allocating available supply to domestic producers on a preferential basis, equivalent to 100 per cent of 1966 deliveries—a higher level of supply than is available in external markets. Review procedures have also been established following consultation with producers, to consider the needs of essential programmes, and cases of exceptional hardship resulting from the shortage. On June 2 export control was extended to cover silver in various forms. This action became necessary to deal with abnormal trade movements following action taken by the United States Government to restrict exports of silver bullion. However, it is not the intention to interfere with normal commercial shipment of these materials.

The copper supply situation has eased considerably since last year, and supply and demand are now approximately in balance. In response to this changing situation, the Government has removed certain restrictions which had existed on the export of copper and copper scrap from Canada.

Export controls machinery still exists for all copper and copper products and scrap in the event it becomes necessary. Sulphur continues to be in tight supply, but Canadian requirements are being satisfactorily met. There will be a substantial increase in Canadian production over the next year which should help alleviate the world shortage.

Now, about exhibitions; even before EXPO '67 had opened its gates in Montreal, plans for Canada's participation at the next Class I World Exhibition—in OSAKA, Japan, in 1970—were well under way. Canada was, moreover, the first foreign country to accept the Japanese invitation for Expo '70 they have adopted our term "Expo" which is a matter of satisfaction to a lot of people. This will be the most important event of its kind in Asia. An architectural competition for the Canadian Pavilion at OSAKA will conclude this month, having considered 208 entries from the profession—a most impressive total.

Elsewhere, and in association with other Departments and Agencies, the Department has been engaged in exhibit programmes

abroad which are drawing attention to EXPO '67 and Canada's Centennial. When these programmes are concluded later this year, at least 60 major presentations, and literally thousands of minor displays of one sort or another, will have been carried out.

Again, in association with other Departments, we have organized exhibits at such important occasions as the recent Water for Peace Conference in Washington and the current Alaska '67 Exposition in Fairbanks, where another important centennial is being celebrated this year. Plans are also being developed for two Special World Exhibition participations in 1968—the Triennale de Milano and HemisFair '67 in San Antonio, Texas.

In tourism the prospects are bright for achieving in 1967 a record income of more than one billion dollars from visitors to Canada. The Canadian Government Travel in the period 1963-1966 carried out a Four-Year Plan increasing its budget by 164%, its staff by 130% and its offices outside Ottawa from 5 to 21.

The extraordinary impact of EXPO '67 advertising and publicity over the past two years, reinforced by that of the special advertising and promotion abroad of Canada's Centennial, has given great support to the Travel Bureau's own considerably increased promotion program. The result is that in our major travel market, the United States, as well as in other important travel markets around the world the awareness of Canada as a desirable travel destination is much higher now than it ever has been.

Over the past ten years the number of travel enquiries received by the Travel Bureau has proved a reliable barometer of the travel income this country could then expect. This year in five months enquiries have exceeded the total for twelve months last year. So there is every indication that a record number of persons will visit Canada this year—not only to see EXPO, but also to visit widely across this country to attend major Centennial events such as the Pan-American Games in Winnipeg.

Over the past ten years, DBS estimates of Canada's annual income from visitors increased by \$477 millions to a record \$840 millions in 1966.

In 1966, \$110 millions was credited to visitors from countries other than the United States.

The Canadian Government Travel Bureau started its first overseas office in 1962 in

London. Since then it has added offices in France, Germany, The Netherlands, Mexico City, Tokyo and Sydney, Australia. Over the past five years the Bureau's steadily developing overseas promotion program is believed to have contributed significantly to the 20% rate of growth achieved.

Last year, for the first time, it was possible for DBS to determine the total number of overseas visitors to Canada. The number coming *directly* was 149,500, a new record, and with 261,260 coming *indirectly*, 410,760 visitors came here from countries outside North America.

In this Centennial year, travel by Canadians within Canada, to see EXPO and to explore the wonderful land that is our heritage, is expected to reach new record levels. The "Know Canada Better" movement has been given considerable encouragement over the past three years by the federal Travel Bureau's matching grant program, now totalling \$250,000 a year, to assist the provinces in increasing travel advertising directed to Canadians. More travel by Canadians in Canada, in all months of the year, for all sorts of reasons—sight-seeing, shopping, business—provides more employment and lengthens the tourist season.

I believe that the Canadian Government Travel Bureau has planned well and effectively with the EXPO and Centennial teams for Canada's travel industry this year. I also believe that the Bureau has now a much stronger, better staffed, more efficient operations base and much wider marketing network to maintain the momentum of travel to Canada in 1967 and to move to stimulate even higher levels of travel activity in the years ahead.

Now, just a word on standards, Mr. Chairman, which is an important function of this department.

The Standards Branch of the Department of Trade and Commerce has responsibilities issuing from five statutes, all having to do with standards of measurements. As Canadian industry expands, so do the responsibilities of this Branch. Industry is faced with the need to measure, with precision, loads of greater and greater size, and coincidentally to make these measurements with a minimum of time loss due to the measurement process itself. The pressure of the economics involved in forcing the instrument people to look at and incorporate new

principles in their measuring machines and to adopt the most advanced methods of automation.

The impact of these changes is obvious. The measurement of weight, which formerly was done only by variations of conventional mechanical lever systems, now often involves electronic, electromagnetic means or hydraulic components. Electronic scales for weighing freight cars can no longer be tested satisfactorily with the traditional short wheel-base test car. A specially adapted test car is presently under design in co-operation with the railways. Present truck scale test units are already at the load limits permitted on public highways. To overcome this problem a new approach is under consideration to achieve capacity testing. The changeover previously reported for the logging industry introduces a new problem for field inspection.

In this general field of weighing the Branch is being increasingly consulted by industry in the matter of adequacy of equipment for specialized purposes.

In search for more accurate methods of measurement, the gas industry continues to develop devices utilizing various flow parameters sensed by pressure and temperature transducers. Such devices are particularly valuable in that they lend themselves to the telemetering of data to central locations from remote points.

The electricity industry is expanding the use of magnetic tapes for recording customers' loads. As previously reported these are designed to be utilized by computers, in billing as well as to provide related information such as load characteristics.

This rapid growth in measurement technology has presented the Standards Branch laboratory with some difficult engineering problems, as it carries out its responsibilities for approvals. While laboratory testing for approval can normally be readily developed, the provision of test methods and equipment for field use requires extensive planning and development work.

To meet increased demands on its manpower resources the Standards Branch has extended in the laboratory calibration area, computer programming on the mathematics and repetitive computation side to make available additional man-hours for construction and development work. For electricity and gas field inspections, the use of automated proving equipment is being extended, releasing men and making staff available for

the extension of the programme of "installation testing".

The field inspection programme has been maintained at high levels in all areas. While the volume and complexity of devices is on the rise, the Branch has continued to meet its regulatory commitment and handle requests from all segments of industry for assistance.

Besides its regulatory responsibilities, the Branch provides facilities and staff to industry for instrument calibration or technical research on measurement problems.

Now, a word about export credits and then Expo and then I will conclude.

The facility of long term export financing which was made available to Canadian exporters is proving to be a very valuable asset to Canada's export trade. This long term financing programme is administered by the Export Credits Insurance Corporation under Section 21A of the Export Credits Insurance Act and, when authorized by the Governor in Council, the Export Credits Insurance Corporation provides the financing to cover overseas sales of capital equipment and related engineering and technical services. During the past year Parliament authorized an increase in the funds available for Section 21A financing from \$400 million to \$500 million.

Since the start of this long term export financing programme, 38 Financing Agreements in 13 countries have been signed, having a total value of \$330 million. Repayments from the foreign borrowers have been received in an amount of \$45 million.

Seven Financing Agreements are currently being negotiated with foreign borrowers aggregating \$53 million.

Committee members will be pleased to know that an increasing number of Canadian manufacturers and engineering firms are taking a much more active interest in developing projects in foreign countries in the knowledge that Canadian Government financing is available when long term payment terms are required.

I am informed that well in excess of 1,000 Canadian companies have benefited from this Section 21A facility. And as I mentioned earlier, I have asked for suggestions from the Export Credits Insurance Corporation and from the Advisory Council as to how this facility might be broadened and improved.

Now, Mr. Chairman, I am pleased to report to the Committee about the success of EXPO '67, which is being acclaimed not only in Canada but throughout the world as an artis-

tic and aesthetic success of the first magnitude. I would also add that at the current pace of daily attendance the exhibition will be a popular success far beyond the estimates of the three governments sharing in the Canadian Corporation for the 1967 World Exhibition.

The planning and staging of the World Exhibition is an achievement of which Canadians may be proud. Six weeks after opening, the Exhibition has welcomed 10 million visitors through the gates. As of yesterday, the total cumulative attendance was 10,431,857 visitors. The advance estimate of total attendance for the entire period of the Exhibition would seem to be conservative. Instead of the earlier estimated total of 35 million visits, total attendance now is expected to be well over 50 million. Revenues as of May 30 are estimated at approximately \$56 million; and I think that figure is relatively precise, although it has not been audited.

The fears that EXPO '67 was not well publicized outside the immediate Montreal area have proved to be unfounded. The ceremonies of inauguration on opening day brought a flood of almost 4,000 journalists from all parts of the world to EXPO '67. Almost universally their reports to their home countries of our EXPO '67 in Canada, generally, have been enthusiastic. Based on the continuing interests, approximately 20,000 journalists we estimate will visit the Exhibition.

Naturally there have been some problems involving the operation of an Exhibition of such immensity. These problems have been met as they occurred, and solutions have been found. For instance, buses were added to supplement the free mass transportation system to carry the crowds, which continue to be larger than anticipated.

The most publicized area of concern is accommodation in the Montreal area. The control of accommodation and costs is under the jurisdiction of the Province of Quebec which is enforcing legislation protecting visitors against being over-charged. Considering the fact that Lodge Expo has already booked over 2½ million bed nights, and is handling requests at the rate of 10 million per day, the number of complaints is quite minimal, I think.

Many factors have contributed to the success of the Exhibition during its first few weeks. Not the least of these factors are the advertising and promotion campaign conducted in the United States. Those of us who had responsibility for EXPO have been enormously

helped by the support of this Committee, and by Parliament; and I wish to express again my personal gratitude for the various visits made by the Committee and their understanding of the difficult problems that have been faced and, I hope, overcome, although I do not mean to imply that we will not have problems in the days ahead in handling such enormous numbers of people. But I can report that it is going well and that it has exceeded the expectation of all of us who have been involved in the planning and development of this great undertaking, which I am sure will raise the sights of all Canadians not only in our Centennial year but in the years ahead.

Thank you very much, Mr. Chairman.

The Chairman: Thank you, Mr. Minister, for your usual very complete report of the wide ranging activities of the Department under your leadership and guidance.

Now, we are open for questioning. If you will signify in the usual way, I will mark you on the list. While I am doing so, I will recognize Mr. Lambert who has already told me of his interest in asking questions.

Mr. Lambert: Mr. Chairman, having received a copy of the Minister's statement only now, I think I would like to leave aside the question of the levels of trade. I would like to go into the Kennedy Round and I know that we are into quite an area of uncertainty at this time with regard to that.

I want to know whether the Minister was aware of the representations made by the Chemical Manufacturers' Association last year to the effect that they did not want to be presented with a fait accompli of conditions which could seriously affect the industry, which in Canada is on a very narrow competitive basis.

I was wondering how much consultation took place with the chemical industry in this country with regard to the potential concessions that might be made, because after all, as the Minister indicated, we were on a selective basis rather than across the board. Was there any consultation?

Mr. Winters: Yes, there was consultation—quite considerable consultation. I will ask Mr. Schwarzmans to give you the details of the consultation.

Mr. Maurice Schwarzmans (Assistant Deputy Minister, Trade Policy): Mr. Chairman, you may recall that before the opening of negotiations, the government set up a committee on trade and tariffs which held de-

tailed consultations with all industry groups and a large number of firms, as well as receiving detailed briefs from them. So we had advanced consultation and throughout the period of negotiation consultations and views expressed by the chemical industry and other industries were taken into account throughout the actual operation in Geneva.

Mr. Lambert: What concerns me is that it is rather late in the game, as we are approaching really the last few months of negotiation, to find the chemical industry bound by its views that it had to make specific recommendations about consultation.

Now, this rather goes counter to what you say, Mr. Schwarzmann. Were they not satisfied with the degree of consultation prior to that? I am hopeful that there was this consultation, but after all it was only last fall, I think, that they were making a very strong pitch. As a matter of fact, some indicated that they felt they were not being consulted whatsoever with regard to this. Now, where are we?

Mr. Winters: Consultation was done largely by the Department of Industry, and most of it dates back to the early days of the Kennedy Round before I became associated with it. From my conversations with the industry, I do not feel there is any lack of consultation. I think they have had and still have these apprehensions about their ability to operate in a highly competitive field with the lack of tariff protection that they felt they have had all along. They have been very disturbed about this. I have had a number of conversations with them, but I would like Mr. Schwarzmann to continue along these lines.

Mr. Schwarzmann: I might add that apart from the Kennedy Round consultations that took place in the early stages and later there was, in the case of the chemical industry, a special tariff board report which involved a sort of separate operation. At the time of the tariff board reference, and through the investigation by the tariff board of the Canadian chemical sector of the tariff, I understand there was very extensive and detailed discussion with the industry. These views, and all the information that developed at that time, were transmitted and taken into account in connection with the negotiations themselves. I do not think I can go into any more detail than that.

Mr. Lambert: Well, of course, the proof of the pudding will be in the eating, which we will see after June 30, I hope. I want to point

out that my particular interest in this is that we have a developing chemical industry in western Canada based primarily on oil, gas and other resources of Alberta and Saskatchewan, and because of its geographical situation it must depend to a great extent on export markets. These industries are particularly sensitive, and this is the reason for my concern. I do not want to see a plateau reached in the development of fertilizer plants and chemical installations such as we have in Edmonton and Calgary because, to me, these are absolutely necessary for the future development of the country. If they have been hard hit as a result of these negotiations, really we are going to set back the industrial development of those particular areas to a considerable extent.

Mr. Winters: I think these export-oriented chemical operations have very good prospects. The dismantling of the American Selling Price is going to be a great step forward in international trade. It will give our Canadian chemical industry a better opportunity for fair markets in the United States than they ever had before. The concessions granted by the EEC, which is the other big area in this field, should present further opportunities to our chemical industry to export.

In the field of fertilizer, of course, I think our people have almost unlimited horizons. This is one area where the demand on a world basis is going to be increasing, particularly in the less developed countries.

Mr. Ballard: You are talking about manufactured fertilizer?

Mr. Winters: Yes.

The Chairman: I think that comes under a different department.

Mr. Winters: You name it; we will sell it.

Mr. Macdonald (Rosedale): Mr. Chairman, I have a supplementary question which is really for Mr. Lambert. What are they complaining about, that the export markets are not big enough, or that they are losing protection at home?

Mr. Lambert: No, the viable operation of these are, shall we say, for a large scale economy. The domestic market is so small for many of our more sophisticated chemicals that they must depend upon 80 per cent of their production being sold on the export market, and they fear we might have encountered difficulties in the results of the

Kennedy Round. Others, on the other hand, depend a great deal upon their domestic market, and if we have really cut away what they—

Mr. Winters: They are really afraid, yes.

Mr. Lambert: Yes; they are more the people who are concerned about this. They feel that they have been thrown to the wolves.

Mr. Winters: That is right.

Mr. Lambert: And they felt that they wanted to know they were going to the wolves.

Mr. Winters: I think we know their position. There are other instances too where, despite the fullest consultation and our greatest efforts to meet the requests of the industry in the course of bargaining, we just have not been able to get all we wanted, and aluminum is a great example of that. We have not been able to gain the concessions in foreign markets in aluminum that we were seeking. I think we have already said that and I think it is well known.

It is not because there was not consultation or because we did not try, but because of the nature of negotiations. In aluminum, for example, we were not a negotiating party of the first part; the basic negotiations were done there between the Nordic countries and the Common Market. The concessions granted by the Common Market, or not granted, were those that were made available to the rest of us and that was the nature of this very multilateral kind of negotiation.

Mr. Lambert: Mr. Chairman, that is all I want to say about the Kennedy Round. I have some other questions in another field, but if there are any who want to go into the Kennedy Round I am prepared to yield. I will pass until the next round.

The Chairman: The next name I have on my list is Mr. Clermont. Then I have Mr. Cameron, Mr. Ballard, and Mr. Macdonald.

Mr. Clermont: Mr. Chairman, if I understood the Minister correctly, he started with exports.

Mr. Winters: Yes.

Mr. Clermont: Then the Kennedy Round, and so on. My first question, Mr. Chairman, will concern exports and I will ask my question in French.

(Translation)

Mr. Chairman, at the beginning of my comments, I would like to thank the Assistant Deputy Minister, Mr. Fletcher, who sent us a brief-case with documentation from the Department of Trade and Commerce. It is regrettable that we only received it at 6 or 6:10 last night. The reason for this was, as the Minister said at the beginning of his comments, that he had been informed of the Committee meeting only a few days ago.

My question is about our exports and our sales abroad. I noticed that the Minister mentioned that our exports increased by 11 per cent in the first four months of the year.

(English)

Mr. Winters: No, I believe the increase was 17 per cent. We are up \$500 million in the first four months over last year, and I think the percentage is 17 or 18 per cent.

(Translation)

Mr. Clermont: I notice that our sales to the United States, for the first four months, increased by 18 per cent, whereas those to the United Kingdom by only 2.8. My information comes from the Dominion Bureau of Statistics, Daily Bulletin of June 5, 1967. Our sales to other countries of the Commonwealth have increased by 33.6, and to other countries by 11 per cent. Would the Minister have some explanation to offer the Committee regarding the increase of only 2.8 in our sales to the United Kingdom for the first four months of 1967?

(English)

Mr. Winters: Do you mean comment on how high it is, or how low it is?

Mr. Clermont: No. How is it, Mr. Minister, that our exports to Great Britain have increased only 2.8 per cent in 1967, whereas it seems that in all other parts of the world our exports have increased by a much larger percentage?

Mr. Winters: And you are questioning why they are not greater to Great Britain?

Mr. Clermont: Yes. Have you any reason for it, or is this natural?

Mr. Winters: It is the nature of their economy and, I think, it is part of the nature of the trading world. Within the Commonwealth of nations Canada's trade is far in advance of any other country. We are going against a trend, and a world trend right now, by having

our total exports for the first four months as high as they are. The British economy is still a bit sluggish. Their exports to Canada in the first part of the year have not been as buoyant as they have been. They are not as high as they wish and I think it is fair to say they are not as high as we wish if we are contemplating a high level of exports to that country.

Mr. Clermont: My question might be explained, Mr. Minister, by the fact that I remember a question that was asked last year by Mr. Macdonald, I think, and you said that Great Britain is buying where she can get the best price.

Mr. Winters: Of course.

Mr. Macdonald (Rosedale): May I ask a supplementary? Has the British import restriction program for currency reasons anything to do with that performance?

Mr. Winters: No, I would not say so. I think it is part of a pattern of their economy which has not got all the bounce now that they would like.

Mr. Lambert: Mr. Minister, I am sorry to interject, but surely they have import control too, certainly during the latter part of 1966 and the early part of 1967. As a sign of improving conditions you get reports of the removal—

Mr. Winters: I think they have removed them and I really do not know of any impediment by way of import controls to our export performance with the United Kingdom. Am I correct on that?

Mr. Schwarzmann: All the import quota restrictions have been removed except, I think for one or two, on certain agricultural items, but they did pass the 15 per cent surcharge which was abolished in November.

Mr. Winters: So, there are no impediments now in the way except the condition of the British economy.

Mr. Lambert: If I may ask a supplementary, is it not a fact that because the surcharge existed until November there would still be the effect in the first four months of 1967? Because you remove import restrictions it does not mean that the next day you are going to have immediate effects. People do not make up their minds to buy until these things have been taken off.

Mr. Winters: That could be. I simply said that I know of no impediments now that are standing in the way of our export program with the United Kingdom.

Mr. Clermont: If I understood your reply to Mr. Macdonald, I think it was on June 7, 1966, you said that England is buying where she can get the best bargain.

Mr. Winters: Yes, generally speaking. I think we all do or we should do.

Mr. Clermont: Yes, that is only business. I agree with that but are we giving better bargains to the other countries?

Mr. Winters: No, not at all. In many ways Britain gets a better bargain under the preferential tariff treatment.

(Translation)

Mr. Clermont: The next item is the Kennedy Round negotiations. In this connection, Mr. Lambert mentioned the chemical manufacturers' anxiety. In our region we have many pulp and paper companies, and I think that this industry also has shown some apprehension with regard to what they call "refined paper".

Has your department, Mr. Minister, had any meetings with the representatives of that industry before signing or accepting the Kennedy Round negotiations?

(English)

Mr. Winters: Yes we did. As you know there are no tariff impediments in the way of pulp and newsprint. There are substantial tariffs in the way of the free flow of trade in fine papers. We did seek advantages in this area for our producers and there were full consultations before the discussions were brought to an end.

(Translation)

Mr. Clermont: But, are these apprehensions on the part of the representatives of this industry justified or are their attitudes a result of their not yet being familiar with the regulations of the final agreement?

(English)

Mr. Winters: I cannot be specific at this stage as you well know, but to the extent that we had to give concessions I suppose there are grounds for apprehension. There is probably greater exposure and the Canadian producing community will have to face up to the realities of the competitive market place.

I think our fine paper industry is one that should face up to it and one that can face up to it. There are more growth opportunities in the fine paper area than in almost any other area of our forest product industries, and I think our fine paper manufacturers should go after them.

The Chairman: Perhaps I can make a suggestion now which I was going to make before we adjourn. While we want to try to discuss this very important aspect of the department's work as fully as possible it is obvious that the Minister will not be in a position to answer as fully as you might like until July 1, as final details are being worked out.

My suggestion is, therefore, that it might be very useful for this Committee to be in a position after July 1, to hear the further views of the Minister once the full details of the Kennedy Round arrangements are available as well as those of the industries concerned, with respect to the implications for these industries in the field of trade and also what they think might need to be done with respect to adjustment assistance for themselves, their workers and so on. I thought this might be a good time, therefore, to make the suggestion.

Mr. Lambert: I know there is a hoped-for target by the government that most of the Committees will have finished their consideration of departmental estimates by June 30 and in that event we would have no opportunity of a point of reference for discussions with the Minister of this very important point.

The Chairman: I think I left out something which is the key to my suggestion, and that is while we try to discuss this issue as widely as possible now—I am not suggesting otherwise—in addition we might get some response from governmental circles that perhaps we will have a special order of reference.

Mr. Winters: I would be glad to come together with you on an ad hoc basis, on a study group basis, or any other basis you wish to approach it. I think it would be a wonderful opportunity to help to disseminate information about what is going to be the most important development in the trading world in this generation.

Mr. Lambert: Well, we will not be sitting until September. This is part of the difficulty.

The Chairman: It may well be that the industries concerned might want to take a month or so to study the details of the proposals.

Mr. Winters: The industries can come in any time. We will tell them that. It is the members of Parliament who are concerned here.

The Chairman: I want to make sure my suggestion does not give the impression I think we should not discuss this now. This is a further suggestion to the Committee which I think might lead to our doing some constructive work.

(Translation)

Mr. Clermont: Mr. Chairman, I want to pursue the subject of the Kennedy Round negotiations. Last year when the Minister came before the Committee, certain fears were expressed by some members of the Committee with regard to the results of those negotiations. One member, in particular, claimed that there might have been a little too much fanfare with regard to the possibilities of success. At the conclusion of the four-year negotiations, are you, Mr. Minister, as the representative of Canada, more or less satisfied with the result achieved?

(English)

Mr. Winters: Well, one is never satisfied and in some areas we did not get the access we were seeking. In other areas I think perhaps we did better than expected. Overall, having regard for the complexities and basic fears that lie deep in many of these countries about removal of tariffs, I believe that the result achieved was as good as could be expected.

(Translation)

Mr. Clermont: Mr. Minister, in your report to the House of Commons with regard to the Kennedy Round negotiations, you showed enthusiasm at the thought that Canadian industries might increase their sales to the United States. However, I see, among other things, a newspaper article entitled: U.S. Protectionists Flex their Muscles. I believe that it is possible for certain legislation to be put before the Congress with regard to dairy products also. In the first four months of 1967, a large quantity of dairy products was sold to the United States, exceeding the quota, I believe. Moreover, this is true not only of dairy products but this is true also of meat, lead, zinc,

steel, textiles, oil, natural gas and even the whole range of plywood and hardwood lumber.

According to this report, can we anticipate any legislation that might reduce our sales to the American market in this connection?

(English)

Mr. Winters: Not that I know of, Mr. Clermont.

(Translation)

Mr. Clermont: The article appeared in the Toronto *Financial Post* of May 27, 1967.

(English)

Mr. Winters: I do not know of any grounds for fears. I have no control over the United States Congress.

Mr. Clermont: I know that. Have you any control over the Canadian Parliament?

Mr. Winters: That is open to debate, I would say. There are no indications that the United States Congress, the President or the Senate will not abide by the spirit and the letter of the agreements reached at Geneva which are directed towards freer trade.

Mr. Clermont: There is no danger, Mr. Minister, that they will impose quota?

Mr. Winters: We have no indication that they will impose quota.

Mr. Clermont: There might be more liberal tariff but if they impose quota—

Mr. Winters: I know, and this is one of the non-tariff barriers to trade that we have been attacking. We have been attacking these quotas and perhaps the next great assault on trade barriers around the world will be in these non-tariff areas of quotas and exclusions of one kind or another. But we have no notice of any such action being contemplated in the United States.

(Translation)

Mr. Clermont: Mr. Minister, in your observations you mentioned the agreement with regard to the new wheat prices. I note in your departmental estimates on the item concerning storage costs that the estimates for 1967-68 are lower than those of 1966-67 by almost \$6 million although I note that in a report by the Dominion Bureau of Statistics the reserves at hand at the end of May were larger than those of last year. Do you have any explanation in this regard? Does this amount

not represent storage costs for wheat for export after July 31 of each year?

(English)

Mr. Winters: I think it represents the charges for storage on the amount over an average figure—175 million bushels or somewhere around there—and I suppose when the estimate was put in by the Wheat Board it was on the understanding that the carryover would be at a certain figure. If we have to increase that we will have to do it through a supplementary estimate.

Mr. Clermont: What I find strange and which surprises me is the fact there is a bigger inventory now, but your estimates for 1967-68 are lower than 1966-67 by nearly \$6 million.

Mr. Winters: Perhaps by the time the year is over and with the way wheat is moving now—it is moving very well—we will be well within that estimate.

Mr. Clermont: In your estimates for 1966-67 the first figure was \$30 million but the cost came to \$39 million, a difference of \$9 million.

Mr. Winters: All I can say is that you have done far more homework on this than I have. I commend you.

The Chairman: Perhaps we can get further details of this later in our study.

Mr. Clermont: I would agree to that, Mr. Chairman, perhaps we could get the reply at our next sitting.

The Chairman: I am suggesting that since this is the technical portion of the department's responsibility it might be looked into so that it can be justified at our later sittings.

Mr. Winters: Certainly.

Mr. Clermont: This is my last question, Mr. Chairman. I thank the deputy minister for what he sent us last night, but I noticed that there was only an English copy of the Canadian cuisine. I hope this information is available in French, too.

Mr. Winters: It is.

Mr. Clermont: Because French Canadians are "de fins gourmets," too.

Mr. Winters: I am told by the officials that it was printed for distribution only in the United States and not in Canada; so that it is not a document that is distributed here.

The Chairman: I gather that the materials in the kit are designed to give us a representative idea of the vast range of materials the department turns out?

Mr. Winters: Yes.

Mr. Clermont: So that this is for publication only in the United States, and is in English only.

The Chairman: Perhaps we should check the recipes to see whether we agree that they represent distinctive Canadian cuisine.

Now I will recognize Mr. Cameron.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I do not have very much to say at this stage, Mr. Chairman but there is one point on which I would ask the Minister to elaborate. He mentioned in passing, when discussing the Kennedy Round that he felt that he and his officials had been able to protect our basic industry. Could he elaborate on what industries he had reference to?

Mr. Winters: Perhaps, more appropriately, I should have referred to segments of our economy rather than to particular industries, because of the nature of the concessions we had to give. We did not have to give linear, across-the-board cuts on manufacturing industries to the same extent as had other industrialised countries. Therefore, we were able to maintain the basic tariff structure of, and to protect, some of these industries more than other countries have been able to do.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Could you elaborate on the types of industries?

Mr. Winters: No, I do not think I could at the moment. You will have to wait for that one.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Another matter came to my mind when you were speaking. There have been some conversations going on in my own province of British Columbia about the possibility of joint enterprises, particularly with Japanese interests, for the possible establishment of some assembly plants. Will the Kennedy Round decisions have any effect on the admission of components for such joint enterprises?

Mr. Winters: Well, they might. I think it is generally known that we did make some concession in the field of machine tools and

such like, largely of the class or kind that are not made here anyhow. We thought it was pointless to continue charging our producers tariffs on tools of production if we could avoid it without harming industries that produce those sorts of goods. That was noted, I think, in the press, so that I am not saying anything that is not already generally known; but I do not think I can go beyond that.

There are some joint undertakings involving Japanese capital, but so far they have been pretty well confined to the raw material industry, providing concentrates of one kind or another. We have told the Japanese that although we appreciate this kind of export business, it is the sort of commodity that everybody wants, and that were not prepared to pay a very high price for any concessions they might suggest, because it did not mean anything to us; that you can sell it elsewhere. However, we told them that they could not contemplate indefinitely the receiving of raw materials from Canada, and that as soon as we can upgrade these materials and get more value out of them in Canada we of course want to do so. This was one of the bargaining positions we were able to take with them.

Mr. Cameron (Nanaimo-Cowichan-The Islands): That is all I have just now, Mr. Chairman.

The Chairman: Thank you. I will now recognize Mr. Ballard, followed by Mr. MacDonald and Mr. Laflamme.

Mr. Ballard: Mr. Chairman, I wish first of all, to congratulate the Minister and his department on their part in the success of Expo '67. It is my opinion that the difference between the tremendous attendance that we are getting at Expo '67 and what was forecast can to a great extent be attributed to the advertising campaign that the Minister undertook in the United States, at what probably might be termed "the last minute."

Mr. Winters: No; it was phased in that way. However, I do recognize the very valuable help given to us by this committee's recommendation that we incur those expenditures.

Mr. Ballard: Has the Minister considered the infusion of money with the object of advertising the Pan-American games to be held in Winnipeg? I think there is a feeling in Canada that they have not been advertised well enough to attract a large attendance. It

may be that it requires only an advertising budget of some proportions to make the games successful.

A great deal of money has been invested in the accoutrements and the structures for the games. It would be a tragedy to have them submerged among the other Canadian fairs and exhibitions because of the attention that is focused on Expo '67. I do not believe that they will detract from Expo '67. I think they could be advertised in conjunction with it.

Mr. Winters: The mere fact that people are coming to Canada this year in response to our over-all advertising will go a long way towards ensuring the success of the Pan-American games. I am sure they will be successful. However, we have been doing something to help advertise them.

With your permission, Mr. Chairman, I will ask Mr. Fletcher to tell you what we have been doing.

Mr. T. R. G. Fletcher (Assistant Deputy Minister, Trade Promotion): Mr. Minister, Members and Mr. Chairman, the Canadian Government Travel Bureau, in collaboration with the travel authorities in Manitoba, Alberta and Saskatchewan, has been carrying out a program of regional advertising in its efforts within the United States of America.

For example, the advertisements that appear in daily newspapers, or over the radio, or on television, in the United States midwest have regularly featured the Pan-American games, which concern Manitoba.

In effect, sir, the Travel Bureau has tried to ensure that important activities across Canada other than Expo '67, are given featured publicity in the Travel Bureau's own campaigns.

In addition, and apart from advertising, there have been co-operative promotional ventures. Towards the end of May, in Dayton's department store in Minneapolis, the three prairie provinces combined with the Travel Bureau, the Centennial Commission and Expo '67 to put on an all-Canada publicity promotion of Centennial year; and setting aside the obvious effort of the province of Manitoba, the Travel Bureau's effort did feature the Pan-American games. The flow of inquiries into the bureau's offices in Minneapolis and St. Paul and, indeed, in Indianapolis have doubled this year over last, and the reports we have are that 60 per cent of these concern the Pan-American games.

Mr. Ballard: Is the department considering any further increase in the amount of adver-

tising, not restricted to the Central or Western United States? Is there going to be an advertising effort concentrated in the remainder of the United States?

Mr. Fletcher: All over the United States the Travel Bureau has been employing what it calls a "gutter" advertisement which lists the highlights of centennial events in 1967 from coast to coast across Canada. These are adjacent to specific advertisements by, in this case, the Province of Manitoba.

However, to answer your question, sir, in every area where the province of Manitoba believes it has an important market from which it can draw tourists in the United States the Canadian Government Travel Bureau has collaborated with the province to advertise the Pan-American games. In addition, the Travel Bureau's advertisements and printed matter invariably mention the Pan-American games wherever that material is distributed within the United States; but there is a regional emphasis.

Mr. Ballard: Mr. Winters, have any surveys been made in the United States, similar to those undertaken prior to the program advertising the games at Expo, to determine the awareness of Americans of the fact that the Pan-American games are being held?

Mr. Winters: Not to our knowledge. We have not been so directly involved in this as we were with Expo.

Mr. Ballard: Is the Manitoba government not receiving any assistance from the federal government in staging the Pan-American games?

Mr. Winters: Yes, they are; but the primary responsibility rests with the Manitoba government. They may have made surveys; I do not know.

The Chairman: If I am not mistaken, it is not your department that is responsible for the federal support of the Pan American Games. It comes under the Department of Health and Welfare.

Mr. Ballard: I was talking on the tourism aspect, though. I will leave that point and ask you one blunt question in connection with the oil industry: What efforts are being made by your department at the present time to encourage the export of oil to the United States, or to encourage the import of oil by the United States from Canada?

Mr. Winters: Well, the lead role in that is played by the Minister of Energy, Mines and Technical Resources. All these things are done on an interdepartmental basis as far as the official approach to us is concerned, the Department of Trade and Commerce, being responsible for our foreign trade, is naturally urging an all-out effort in this. We have seen the officials in Washington on a number of occasions, and we are pressing our case with the American government just as warmly as we possibly can because the climate at present appears to be more favourable than it has been because of the state of uncertainty in the Middle East.

Mr. Ballard: There seemed to be a lobby developing in the United States, asking for a reduction in oil imports, but this may have changed within the last few days.

Mr. Winters: Oh, no; the lobby will be there anyhow.

Mr. Ballard: There have been indications that the importations might be reduced rather than increased. I was wondering if your department—

Mr. Winters: No, I do not think there is any basis in that. We are pressing our case just as warmly as we can, through the proper channels, and the response we get is a very realistic and, I think, not unfavourable one.

Mr. Ballard: One last question, then, just as a matter of interest. You indicated that you had made a survey of industry, set out guide lines, and so on, had sent out 3,300 inquiries and had received 1,900 replies. My concern relates to the companies from which you did not receive a reply. Was there resistance by these companies to replying, or was the absence of a reply caused by something else?

Mr. Winters: Mr. Ballard, if I may give you the figures, I sent letters to about 3,300 companies and I have received replies from approximately 2,500. There were actually 1,900 replies but they were with respect to about 2,500 companies. Most of the companies that have not replied—and replies are still coming in—are nominees. Many of the companies are just names and the companies are being kept alive by lawyers perhaps. They are not operational at all. I would think that the 500 or 600 that have not replied are perhaps all in that category.

Mr. Ballard: In other words, you are quite satisfied with the co-operation that you are getting?

Mr. Winters: I am; but I will not be completely satisfied until all the companies reply. We have had no reluctance or resistance whatever.

Mr. Laflamme: Mr. Chairman, my questions relate specifically to the problems arising in the shoe manufacturing industry in Canada. About two months ago we had a meeting of all parties in the House of Commons with representatives of the Shoe Manufacturers' Association. They submitted figures for the last 10 years showing the imports and exports of their products. Those figures indicate that Canadian industry in this field is very much affected by the increase in exports, which amounts to about 300 per cent in the last 10 years. Mr. Winters, were you present at that meeting?

Mr. Winters: No, I was not.

Mr. Laflamme: I realize that you have those figures. Are you or your officials of the opinion that if the current situation continues we may have a lot of trouble in Canada because of this industry's efforts to protect this increase? Although the population is increasing there is a diminution in their own production. It is my opinion that we are increasing exports from Japan and other countries far beyond what could be considered normal.

Mr. Winters: We have had many representations about this, and I have visited a number of shoe manufacturing establishments to see what condition the Canadian industry is in, as far as I could assess it. The ones I visited were highly efficient; they were not only competing domestically but were exporting. The production of shoes in this country has gone up quite substantially.

It is true that our imports of shoes have gone up, too, but there is no evidence of dumping that I know of. We are going to have a new dumping code which is going to be an effective outgrowth of the Kennedy Round negotiations. This code will examine the situation on the basis of injury, but will have to be on a national basis.

All I can say at this stage is that I am aware of the problem, and we are watching it. Some shoe manufacturers are probably being hit harder than others, but those I have seen appear to be operating at full capacity and exporting their product.

Mr. Laflamme: You have no doubt noticed that exports to the United States have greatly diminished in the last couple of years. Is this

because they have imported some products from other countries, as did Canada?

Mr. Winters: I have no doubt that they are importing a lot of shoes in the United States. However, I could not answer your question statistically because I do not know.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Mr. Winters, do you happen to know, how many shoe manufacturing companies there are in Canada?

Mr. Winters: No, I do not know the number. However, we can find out for you. Does anyone here know?

Mr. Clermont: Mr. Winters, you mentioned a new dumping law. Am I correct in saying that when the new dumping law comes into effect we will have to prove, in addition, that the prices are lower than our market price and that they are hurting the Canadian industry?

Mr. Winters: Yes; the basis of it is one of injury. We have to establish injury.

Mr. Clermont: Would it not be more difficult to prove that goods are sold in Canada that way?

Mr. Winters: What constitutes "injury" is always a matter of determination, but on the whole the new code, if implemented, will, I think be easier to administer. It is accepted universally now. There will, I think, be advantages in operating under it in other countries.

Mr. Clermont: Thank you.

Mr. Ballard: Mr. Chairman, is the criterion of injury an international one, or is this strictly the Canadian approach?

Mr. Winters: It is an international approach. I suppose there will be yardsticks worked out from it. It is still in its preliminary stages. It has been accepted in principle, but it will have to be implemented.

The Chairman: Probably the officials can provide us with the number of shoe manufacturing firms in Canada. The Dominion Bureau of Statistics would have those figures.

Mr. Laflamme: I have them in my office but I do not recall them precisely.

There was another problem raised by that association. They represented to us that the imports of those products were not of too much benefit to the consumers because some merchants were selling some of the imported products at prices higher than their real value. They requested that we should impose upon the importations the precise quality of the products so that they could perhaps compete better with their Canadian sales.

Mr. Winters: Do you mean that we should impose a standard mark-up?

Mr. Laflamme: Yes; a standard mark-up, or something of that kind.

Mr. Winters: I do not know that I would want to suggest that we get into a price control operation. I do not think that I would. I am of the opinion that it is too difficult to administer any such program in times of peace.

Mr. Laflamme: But their main difficulty in competing with the other countries stems from the fact that they are paying salaries which are much higher than they are in the countries which are exporting to Canada.

Mr. Winters: Generally speaking, I think our operations are more efficient. We use less labour and more machinery. These operations are pretty highly automated. I have not seen a great deal of our industry, but what I have seen of it appears to be quite efficient.

Mr. Laflamme: I think you may have chosen only the best ones.

The Chairman: Mr. Laflamme, if you have concluded your questions, may I say that it is very close to one o'clock. I suggest that we adjourn until next Tuesday. Perhaps we should ask the Minister to return then because I suspect that some members may have further questions after having reviewed the Minister's statement. We could then excuse the Minister and go on with the administrative portions of Vote No. 1 and Vote No. 5 which deals with the Trade Commissioner Service.

There being no other comments of a routine or administrative nature from members of the Committee I will declare the meeting adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament
1967

STANDING COMMITTEE

ON

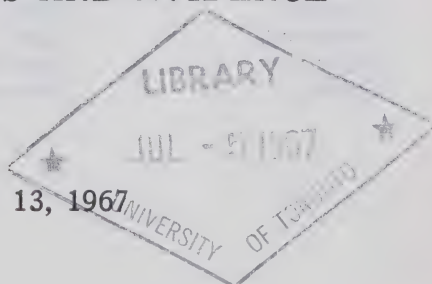
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY, JUNE 13, 1967



The Hon. Robert H. Winters, Minister of Trade and Commerce
and
WITNESSES:

From the Department of Trade and Commerce: Messrs. J. H. Warren,
Deputy Minister; T. R. G. Fletcher, Assistant Deputy Minister
(Trade Promotion); Roger Rousseau, Trade Commissioner Service.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON
FINANCE, TRADE, AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Addison,
Ballard,
Cameron (*Nanaimo-
Cowichan-The Islands*),
Chrétien,
Flemming,
Fulton,
Gilbert,

Irvine,
Laflamme,
Lambert,
Latulippe,
Leboe,
Lind,
Macdonald (*Rosedale*),
Mackasey,

McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Munro,
Tremblay,
Valade,
Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

MONDAY, June 5, 1967.

Ordered,—That the quorum of the Standing Committee on Finance, Trade and Economic Affairs be reduced from 13 to 9 members.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

THURSDAY, June 1, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

FIRST REPORT

Your Committee recommends that its quorum be reduced from 13 to 9 members.

Respectfully submitted,

HERB GRAY,
Chairman.

(Concurred June 5, 1967.)

MINUTES OF PROCEEDINGS

TUESDAY, June 13, 1967.

(3)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:12 a.m. this day, the Vice-Chairman, Mr. Clermont, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gilbert, Laflamme, Lambert, Lind, Macdonald (*Rosedale*)—(7).

In attendance: The Hon. Robert H. Winters, Minister of Trade and Commerce; Mr. J.-C. Cantin, Parliamentary Secretary to the Minister; *From the Department of Trade and Commerce:* Messrs. J. H. Warren, Deputy Minister; T. R. G. Fletcher, Assistant Deputy Minister (Trade Promotion); Dennis Harvey, Assistant Deputy Minister (Commodities and Industries); Roger Rousseau, Trade Commissioner Service; Maurice Schwarzmans, Assistant Deputy Minister (Trade Policy); L. L. Rodger, Comptroller Secretary; V. J. Macklin, Director, Economics Branch; Marcel Legris, Director, Personnel Branch; L. L. Marks, Chief, Financial Services Division; R. W. MacLean, Director, Standards Branch; G. E. Anderson, Assistant Director, Standards Branch; D. B. Laughton, Director, Agriculture and Fisheries Branch; Bruce Kidd, Grain Division; B. F. Armishaw, Executive Assistant to the Deputy Minister.

The Vice-Chairman expressed the condolences of the Committee to Mr. Irvine, a member of this Committee, who has recently lost his wife.

The Committee resumed consideration of Item 1 of the 1967-68 Estimates of the Department of Trade and Commerce.

Pending arrival of the Minister, who was delayed at a Cabinet meeting, Messrs. Warren, Fletcher and Rousseau were questioned.

The Minister having arrived, he was questioned, and was assisted in answering questions by Messrs. Warren, Fletcher and Harvey. Item 1 was allowed to stand.

At 12:50 p.m. the Committee adjourned until Thursday, June 15, 1967 at 11:00 a.m.

Dorothy F. Ballantine,
Clerk of the Committee.

(Extract from the Minutes of Proceedings, Thursday, June 15, 1967)

On motion of Mr. Macdonald (*Rosedale*), seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That the evidence adduced at the meeting of Tuesday, June 13, 1967, be incorporated as part of the official Proceedings of this Committee.

Attest.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, June 13, 1967.

The Vice-Chairman: Perhaps while we are waiting Mr. Warren would introduce the members of his staff who have attended with him?

Mr. J. H. Warren (Deputy Minister, Department of Trade and Commerce): Gentlemen, apart from Mr. Cantin, who is known to you, and myself, Jack Warren, the Deputy Minister of the department, we have a number of officials with us this morning. Perhaps it would be of interest to you, as suggested by the Vice-Chairman who is chairing the meeting this morning, if I were to introduce them. Mr. Leslie Rodger on my immediate right is the Comptroller-Secretary of the department and is responsible for administrative and personnel matters generally, liaison with Parliament and the submission of Cabinet documents; all that area of the Department's work or planning relating to administration.

First on our right against the wall, Mr. Maurice Schwarzmenn, whom I believe you met last week. He is the Assistant Deputy Minister for Trade Policy. Mr. Larry Marks, who is head of the financial branch of the Department: Mr. Dennis Harvey, the Assistant Deputy Minister in charge of Commodities and Industries Services; Mr. Tom Fletcher, the Assistant Deputy Minister, External Trade Promotion who, amongst other things, has the responsibility for Canada's Trade Commissioner Service; Mr. Roger Rousseau, next to him, is the Executive Director of the Trade Commissioner Service who is en poste and is going to Paris to be a Commission minister in France. Next to him is Mr. David Laughton, who is Director of the Agriculture and Fisheries Branch of the Department. Then, Mr. Bruce Kidd, who is acting for Mr. Bob Esdale, Chief of the Grain Division of the Department. Mr. Esdale is at home today with a shoulder which is immovable. Next to the pillar, Mr. Rod MacLean, Director of the Standards Branch, and his chief adviser in the area of weights and measures, Dr. Anderson. Next is Mr. Vic Macklin, Director of the Economics Branch of the Department of

Trade and Commerce, and next to him on the extreme left is Mr. Marcel Legris, Chief of Personnel.

The Vice-Chairman: Thank you very much, Mr. Warren. Gentlemen, no doubt you are aware that last week one of our colleagues and a member of this committee, Mr. Irvine, lost his wife. On behalf of the committee I offer Mr. Irvine our deepest sympathy.

I understand from Mr. Warren that the Minister, the hon. Mr. Winters, is supposed to be here this morning. Is that correct, Mr. Warren?

Mr. Warren: It was Mr. Winters' intention, when I spoke to him before Cabinet, to leave Cabinet and come to the Committee at 11 o'clock. It now being a quarter past eleven, possibly there are matters you would like to raise with the Department that we could perhaps deal with in Mr. Winters' absence. We are at the disposition of your committee, sir.

The Vice-Chairman: Yes, Mr. Lambert?

Mr. Lambert: Mr. Chairman, I do not want to pre-empt any plans but I would like to suggest that perhaps we could receive evidence on some of the administrative detail that is contained in the minister's statement. We do not need a quorum to receive this evidence. We could then go into questions, for instance, which I have about the Trade Commissioner Service, and I am sure that we could probably get that information from Mr. Fletcher because the questions would be passed on to him by the Minister in any event.

The Vice-Chairman: Gentlemen, may I see a quorum? At present Mr. Lind has signified his intention to ask questions.

Mr. Lind: I would like to ask questions of the Minister when he arrives.

The Vice-Chairman: Mr. Lambert, are you ready to ask questions of members of the staff?

Mr. Lambert: Thank you, Mr. Chairman. My questions are in the area of the trade commissioner service. The Minister's state-

ment indicated that there were 210 officers on strength. I would like to know the degree of change of personnel in the Trade Commissioner Service; the flow of resignations and transfers, the enlistment and also the nature of the background which offers the greatest potential for good officers in the Trade Commissioner Service. Are they graduates in commerce? Are they graduates in a particular field, in arts and science. What is the background; what type of men are you looking for?

Mr. Warren: I would like Mr. Fletcher to answer that question if Mr. Lambert agrees.

Mr. T. R. G. Fletcher (Assistant Deputy Minister, Trade Promotion, Department of Trade and Commerce): Mr. Chairman, Mr. Lambert, I will deal with the sections of your question in sequence. Your first query was with regard to the flow of personnel?

Mr. Lambert: That is right—the change-over; what you experience over a few years; whether there is an increasing changeover of personnel or whether there is stabilization.

Mr. Fletcher: I would say, sir, that upon balance the attrition through resignations because serving officers wanted to go to some other kind of employment is very low indeed. On the other hand, in the last few years the attrition that we have experienced is higher than it used to be. We believe that this reflects what we have come to term “the present generation”. The young man who joins the Trade Commissioner Service is imbued, because of his environment, his generation, with more restlessness than used to be the case. He is prepared to devote five to ten years of his business career with one employer. Then he thinks it normal to change and go to another employer. But even saying that, Mr. Lambert, the attrition rate is very low indeed; it is particularly to be found amongst the more junior officers of the Grade 2 and Grade 3 levels and we have eight levels of officers.

As to the intake, in the fiscal year 1966-67, we recruited 33 young officers. That was the largest single recruit class that we had ever recruited. We went out for them deliberately; we were very pleased with the quality of officer whom we obtained. In the current fiscal year, we are receiving the recruits reporting for duty. We have 30 more coming in this year. This is another very large class by our normal recruiting standards.

We are very pleased with the academic and other qualifications of these young officers. In

so far as their academic disciplines are concerned, where this comes into eligibility, we do find, as is logical, that the preponderant university degree or degrees are in the commerce and finance area, Masters of Business Administration, and so on. But nonetheless we have degrees in all the relevant academic disciplines: we have engineers of every kind; we have students with degrees in modern languages; we have honours history students; we have people with degrees in political science and economics. If it does not sound too facetious, we have everything but doctors and dentists.

Literally we do not specify any particular academic discipline as required. To put it another way, we are looking for a young man, or a young woman, in whom we can find the qualities of a good mind, a touch of the extrovert, and a sense of mission.

Mr. Lambert: What do you mean precisely by, a sense of mission?

Mr. Fletcher: Well, sir, it is not all glamour. There is a good deal of heartache, hard work and activity, which is offset by challenge, variety and job satisfaction because our people can make a contribution to their country and their Department. But quite literally, the person who does best in the Trade Commissioner Service, in our judgment, is someone who has a flavour of the missionary about him, and I do not mean that disrespectfully. This is someone who must have that little bit of extra zeal and initiative, and we call it a sense of mission, a sense of wanting to contribute.

Mr. Lambert: Last year, I believe, I attended a dinner meeting in Edmonton at which there was a whole group of your new officers who were on a familiarization tour of Canada. Is this part of the general indoctrination of your new recruits?

Mr. Fletcher: Yes. Prior to their going abroad to their first posting, all the recruits undergo a period of training that lasts twelve months within Canada. The greater part of that training is specifically with the Department at Ottawa, or visiting other scheduled departments of government in Ottawa.

But a total of four of the twelve months is taken up in a coast-to-coast familiarization tour which introduces the young officers to the economy of Canada because we have found that in many cases an officer from a particular province has not travelled in other parts of Canada, and since he is going to represent the country as a whole, we send him physically to every province in Canada.

In the course of his trip we develop a program that emphasizes the export-oriented sector of the Canadian economy. He talks with provincial departments concerned with export trade and industrial development; he visits on a sampling basis, obviously, typical export operations, companies, factories, trade associations, chambers of commerce, the whole gamut that is representative of the Canadian business community. They undertake something in the neighbourhood of 300 calls in the course of the four months from coast to coast. This introduces them to the potential of the Canadian economy for export but it is, I repeat, a sampling process, nothing more nor less.

Mr. Lambert: Coming back to the question of recruitment, do you feel that you get a sufficient volume of recruits to be selective so that you have no problem in getting what you consider the right type of man or woman?

Mr. Fletcher: We do, sir. This year, I mentioned we are recruiting thirty young officers. These were selected from a total of over 400 applicants. Mr. Rousseau, Executive Director of the Trade Commissioner Service, was in the Interview Selection Board.

Mr. C. O. R. Rousseau (Trade Commissioner Service, Department of Trade and Commerce): The recruiting system we follow is one which meshes with the total public service recruiting from graduates. This year we had a pool of 4,000 who wrote the written examination. This was brought down to a 1,000 for the Public Service, of which 500 were for the foreign service, for both External Affairs and ourselves.

Mr. Lambert: So you work into that generalized pool. You do not have a competition exclusively for Trade Commissioner Service as such.

Mr. Fletcher: No. There is a joint competition for foreign service for the Department of External Affairs, the Department of Trade and Commerce and the Department of Manpower and Immigration.

Mr. Lambert: You indicated your intake of recruits for last year and this year. Do you envisage any change in that pattern for the next few years, or do you feel that you will still have that fairly strong demand for new officers, say for the next five years?

Mr. Fletcher: We believe there will be a continuing strong demand for officers in the

Trade Commissioner Service for the foreseeable future, Mr. Lambert.

Mr. Lambert: Thank you.

The Chairman: Gentlemen, I should have mentioned that the Minister placed before this Committee some comments on Item No. 1 of last Thursday. If any of the members present do not have a copy of these comments, I have them here. His comments were on export, guidance to foreign-owned subsidiaries; trade policy Kennedy Round; trade agreements and negotiations; trade promotion, Export Advisory Council; Operation Export 1967; co-operation with and staffing of the Business Development Bureau of Expo '67; Trade Commissioner Service, new trade posts; supply situation; exhibitions and standards.

Mr. Lind, do you have any question to ask the Departmental official?

Mr. Warren: Mr. Chairman, may I offer one comment additional to what was said by Mr. Fletcher and Mr. Rousseau, which I think is relevant to Mr. Lambert's inquiry? I think it will be of interest to the Committee that quite a number of the young men who enter the competition for the foreign service, and in particular for the Trade Commissioner Service, have had some business experience as well as their academic experience.

Mr. Lambert: May I add a supplementary question? How many of your candidates are bilingual? By that I mean not only those who speak French and English, but those who have a useful working command of another language besides English, be it Spanish, French, German or any other languages that would be of considerable use in the foreign service?

Mr. Fletcher: I understood Mr. Lambert's question to mean: how many of the applicants have a foreign language additional to French and English.

Mr. Lambert: No. My question was, how many of the recruits taken on are bilingual? By bilingual I mean another language besides English. Primarily, of course, I am interested in those who speak French as well, but how many of them offer another language besides English or French?

Mr. Fletcher: Of the present reporting class of 30 recruits, 11 are of French extraction, and an additional 3 of other extraction have a facility in French. However, all recruits on reporting for duty are given a language competence test in French if their mother

tongue be English, and in English if their mother tongue be French. If their capacity indicates that they need additional training, they are sent to one of the intensive language courses operated by the Public Service Commission, Mr. Lambert. This gives them three months' training in the other official language of Canada.

In so far as a third language is concerned, we find that this is rare. Frankly, Mr. Lambert, we have, as a policy, a program that leads us to send the officer who needs a third language to a language school at the expense of the Department. In other words, we believe one can purchase a specific foreign language competence after recruitment, and that we are better advised to seek the quality of mind and temperament in the man rather than look for a recruit who also has an additional language facility. If we find it, of course, we are elated, but we believe we can purchase foreign language competence and that is a more realistic approach than to try to seek recruits with a third or fourth language facility from amongst all of the applicants.

Mr. Lambert: This brings to mind, if I might continue, the fact that I have had a number of discussions with university students of, say, Ukrainian or German parentage who have as their mother tongue their ethnic language, and who find themselves at somewhat of a disadvantage as to what qualities they are able to offer because of this second language; it does not really count for anything.

I am also concerned in Western Canada about the second and third generation Asiatics, primarily Chinese, where we have a pool, with a very strong potential, of university graduates who I think can be of great service to the Public Service of Canada because they are able to offer, say, Chinese as a second language. Naturally, coming from Western Canada, they are not versed beyond high school French; they have a complete mastery of English, but they are also very competent in Chinese. I would hope that we could offer a meaningful future to people of this category.

Mr. Fletcher: Mr. Lambert, we place no inhibitions on such candidates applying. There is no discrimination against them on the grounds that they may not know French or they may not know English, as the case might be. As I have explained, so far as Canada's two official languages are concerned, we will send the recruited officer to learn the one in which he is not proficient.

Where a man has an additional language facility, and all other qualifications are equal, we give recognition to that additional facility as well. I am not personally aware of whether we have had any candidates of Chinese or Japanese extraction, such as you instance, in recent competitions, but I can assure you, that there would be no tipping of the balance against them on those grounds, sir. They stand equally on their capacity and on the impression they make at the time of interview and the judgment of the Foreign Service Selection Board with all the criteria that that board brings to bear.

Mr. Lambert: The reason I raise this is that there is an increasing volume of second and third generation Canadians of Chinese origin coming forward. I would hope that they could be encouraged to come into the Public Service because, unfortunately, I do not think our interests in the Pacific have been accentuated enough. We have a real potential there, Mr. Minister, and I think we should encourage these people to come forward.

At the moment I think perhaps the scientific disciplines attract them more, but there are increasing numbers coming into our schools and universities in the West who are going into patterns of commerce, business management, and so on. This field, being open to them, would encourage them to apply; I am looking over the long pull.

The Vice Chairman: Before I recognize Mr. Lind, I understand that the Minister has some replies to questions asked by Mr. Laflamme last week concerning the shoe manufacturing industry.

Hon. Robert H. Winters (Minister of Trade and Commerce): Yes I have, Mr. Chairman. I apologize for being late; I attended a meeting which is still in progress.

Mr. Laflamme requested the number of shoe manufacturers in Canada. The number of manufacturers of leather footwear, including slippers, is 219 and the number of manufacturers of rubber footwear is 7, for a total of 226. That is on the basis of DBS statistics of 1965.

Mr. Cameron asked for the number of shoe manufacturers in the United States. The answer we have, which is obtained from the Department of Industry based on statistics of 1963 provided by the United States—which is a little out of date—is that there are 1,040

manufacturers of shoes, except rubber; slippers 153; rubber footwear 53, for a grand total of 1,246.

The Vice-Chairman: I now recognize Mr. Lind.

Mr. Lind: Mr. Winters, as you realize, scattered, throughout Southwestern Ontario we have many furniture manufacturers. We realize their concern about the Kennedy Round of talks at Geneva regarding removal of import duty on furniture, their chances of breaking out of the domestic market and going into the export market. Have you anything to say that would allay their fears, if this tariff protection is removed, in respect to their furniture products?

Mr. Winters: No, I do not think at this stage I can say anything to either allay or heighten their fears. You are fearful that the tariff will be removed altogether, whereas we are looking for a freeing up of trade and not free trade at this time. I think, as far as further details go, you will have to wait until June 30 when these all become translated into formal agreements.

Mr. Lind: If an item becomes free of tariff, would the import of the fabrics that they use extensively—and they import a lot of these—be given a balancing compensation by a reduction of import duties on the fabrics?

Mr. Winters: I am not quite sure what you mean.

Mr. Lind: In our furniture manufacture we used a lot of imported fabrics which I understand at the present time are subject to certain duties. If we are going to take the protective tariffs off our furniture and be subject to foreign import competition, would the fabrics used in the Canadian manufacture of our furniture be freed of duties?

Mr. Winters: Do you mean if they are re-exported; if the furniture is exported?

Mr. Lind: Used for the domestic market and export too.

Mr. Winters: I think you will have to wait and see how this washes out. You continue to speak, Mr. Lind, about the removal of tariff which I think is a little bit too pessimistic an approach. If you have protectionist tendencies in mind, I think you will find, on the over-all, that Canadian industry is going to be the beneficiary, although you might find isolated instances in which a reduction in the tariff

will provide more exposure than it does now. We will have to wait and see. Perhaps you are a little unduly pessimistic at this stage.

Mr. Lind: Thank you.

Mr. Lambert: May I ask a supplementary question?

The Vice Chairman: Yes, Mr. Lambert.

Mr. Lambert: In the event that there are changes in the anti-dumping rules for Canada, and I think today there was a report from the meeting of the Canadian Council of Furniture Manufacturers in which they expressed concern about the possible effect on Canadian furniture manufacturers if there is a wholesale removal of anti-dumping prohibitions, they will be able to match the competition that will follow from this by a lowering of tariffs on imported fabrics that they use.

We know very well that many of the furniture manufacturers must bring in some of the materials which they use and that it would make little sense actually to open up competition for the finished product and yet keep our manufacturers hobbled by rather high tariff or customs duties on the materials they bring in.

Mr. Winters: Of course our aim, the government's aim, and I think the country's aim must be to get our cost structure down and to eliminate elements of cost wherever we can, and to the extent that tariffs become an element of cost I would assume we would like to see them reduced.

Mr. Lambert: Well that action is dependent upon the Canadian consumer entirely, not upon any agreement. Perhaps the Minister of Finance has taken cognizance of this.

Mr. Winters: Yes.

The Vice Chairman: Are you through, Mr. Lind?

Mr. Lind: I guess it all hinges on waiting for two weeks.

Mr. Winters: Yes, I am sorry we are in this position but it is inevitable that we are. In another couple of weeks the whole business community will know where it stands.

Mr. Lind: There is only one other area that I am concerned with. A year ago, in August, we were confronted with the Australian government shipping in a lot of canned fruits to our area which the processors re-processed and put it on our market. At the same time

many of our farmers in Southern Ontario were greatly concerned about the loss of their fruit contracts. Is there any way of stopping Australian manufacturers dumping these fruits?

Mr. Winters: As I remember, you along with Mr. Whelan and several other members from that area brought this to my attention at that time. We looked into it and could not find any evidence of dumping. The laid down costs here seemed to be consistent with the domestic selling price, when you add to that their cost of transportation and so on. We could not find any evidence to support the suggestions that there was dumping.

Mr. Lind: There is no way that we can avoid the same thing happening this year if there is a bumper crop in Australia?

Mr. Winters: We would certainly look at it. If there is any evidence of dumping, we can get at it; if there is no evidence of dumping then it is a matter of trade within the rules of the game and competition.

Mr. Lind: Thank you.

The Vice-Chairman: Mr. Macdonald.

Mr. Macdonald (Rosedale): I wonder if I could return to the question we were discussing with Mr. Fletcher and he could supplement his answers in that area if he has any information on hand, first, as to the number of Chinese-speaking officers and, second, as to the number of officers competent in the Slavic languages?

Mr. Fletcher: Mr. Chairman, Mr. Macdonald, subject to verifying the answer I give you now as very close to the actual fact, we know of no officers currently in the Trade Commissioner Service who are fluent conversationalists in Chinese. We have two officers taking an extracurricular course, as an experiment, in Mandarin conversation offered by the Ottawa Secondary School Board just to see what they can achieve. In so far as the Slavic languages are concerned, at the moment we have three or four officers who are of Slavic extraction. One of these officers is currently serving in Belgrade where his knowledge, through his mother tongue, of Serbo-Croat is being put to use.

Annually, we have a selected officer taking a nine-month course in the Russian language which graduates him competent to read, converse and write mostly relevant to his office

duties. I do not know whether this answers your question along the line you had in mind.

Mr. Macdonald (Rosedale): Do you have any information on Spanish-speaking officers?

Mr. Fletcher: We have a great many. Mr. Rousseau himself is an example. Have you the statistics?

Mr. Rousseau: No, but we have about 20.

Mr. Fletcher: There are over 20. We have 13 posts in the Spanish-speaking parts of Latin America and all officers who are sent to those posts take Spanish tuition to make them competent in conversation at least so that they can talk on the telephone or in person with a national of the country in which they are located.

Mr. Macdonald (Rosedale): Thank you very much, Mr. Fletcher. I have a question to the minister. Mr. Fletcher mentioned a commission in Belgrade but I notice there is no appropriation for Belgrade in the estimates. How does that come about?

Mr. Winters: It is a new post.

Mr. Macdonald (Rosedale): I am referring to page 496 of the estimates. So at the present time Canada would have only one position in eastern Europe, excluding Yugoslavia, for a trade commissioner, in Moscow itself.

Mr. Fletcher: We have two officers in Moscow. We have our officer in Copenhagen accredited to the government of Poland. We have our officers at Vienna accredited to the governments of Czechoslovakia, Hungary, Bulgaria, Rumania and we have a post, a commercial division if you like, of the Canadian embassy in Belgrade, where the incumbent is accredited to the Yugoslav government.

Mr. Macdonald (Rosedale): Does this reflect a feeling that there are really very limited business opportunities in state trading countries?

Mr. Fletcher: I do not think so.

Mr. Winters: No. It is just building up in that area. We recognize the developing opportunities there and, as you may recall, I took a trip through that area last fall and thought there were substantial business opportunities. We have been negotiating with a number of those countries since and we think we can

develop more trade. This is one of the reasons we are putting an officer in Belgrade. He previously worked out of Vienna.

Mr. Macdonald (Rosedale): Would he be responsible for Yugoslavia alone or would he look after the Southern Balkans?

Mr. Fletcher: At the moment we are making him responsible for our trade interests in Yugoslavia alone but we contemplate further decentralization in time. Our expectation is that he will have an additional country of Eastern Europe added to his responsibility as we decentralize the territorial accreditation of our post in Vienna.

Mr. Macdonald (Rosedale): Mr. Minister, as I understand it, many of the longstanding trade agreements were negotiated with these countries when they were under a capitalist system and I wonder if the department seeks protection through treaty from the fact that they have moved, essentially, to a state trading system and therefore the former principles do not apply.

Mr. Winters: If we what?

Mr. Macdonald (Rosedale): If you sought protection from the fact that you are dealing with basically state trading organizations rather than private entrepreneurs?

Mr. Winters: If we seek protection? What do you mean by that?

Mr. Macdonald (Rosedale): Well, for example, if you are dealing with a government alone you will have some very different characteristics than if you are dealing with a private entrepreneur?

Mr. Winters: Yes. Most of these countries are changing over to open opportunities for dealing on a company to company basis. They are moving away from state planning and state operating in the field of economy so as to develop incentives and more freedom to operate. This has not yet developed to the point where one can determine much change in the pattern but they all told us last fall of their plans to do this.

Mr. Cameron (Nanaimo-Cowichan-The Islands): May I ask a supplementary question?

The Vice Chairman: Are you agreeable, Mr. Macdonald?

Mr. Macdonald (Rosedale): Yes, Mr. Chairman.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I was wondering, Mr. Fletcher, if you can give us any information, first, as to whether we have any officers of Japanese extraction and, second, whether we have any officers who are competent in the Japanese language. It seems to me this is an area which is going to become increasingly important.

Mr. Fletcher: Mr. Chairman, we have no officers in the Trade Commissioner's Service who are of Japanese extraction. We have a wife who is Japanese but no officers. At the present time the officers serving at the Canadian embassy in Tokyo and those who served in the past have developed an imperfect command of spoken Japanese, the simpler terms, but none of them could be classed as fluent in the Japanese language for conversational purposes.

We are in touch with the authorities that operate the public service foreign language school, the Department of National Defence specifically, and they are giving consideration to a Japanese language course that would take about nine months of tuition time. But heretofore we have taken the view that it would take up to two years constant study of the Japanese language to make a person fluent and we have not felt able to invest a man's time to that degree, sir, bearing in mind our over-all position and personnel resources. This is why we are looking at the shorter course that may become a reality and then we will send somebody to it.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Would it not be good policy to seek recruits among those of Japanese origin for whom Japanese is the mother tongue? I have in mind the reports one hears of complete miscomprehension between Japanese and English-speaking people, the Japanese apparently having a complete command of English but apparently not really grasping it. It seems to me it would be safer if we were to try and recruit officers who are of Japanese extraction and also have a complete knowledge of English because they were born in this country rather than relying on the very difficult task, as you point out, of training people in this totally different sort of language.

Mr. Macdonald (Rosedale): I wonder if I could just put to the minister a generalization of Mr. Cameron's question and say not just Japanese but other language skills. In view of the mosaic nature of the Canadian community it seems to me that we are missing a great

opportunity of utilizing native-born Canadians who have not had to invest two years in learning the language, but have learned it from birth. It seems to me that perhaps a change of emphasis is indicated in the recruiting policy. As Mr. Cameron pointed out, in view of the prominence of Japanese Canadians in so many fields in Canada it seems bizarre that there is not one Japanese-speaking trade commissioner.

Mr. Winters: Of course there is no reason why there should not be. We would welcome that. I do not know if any have come forward for consideration or not.

Mr. Warren: There have been none who have qualified, sir. I think it is to be remembered, without in any way questioning the basis of Mr. Macdonald's and Mr. Cameron's questions, that the Trade Commissioners normally stay for approximately three years at a healthy post or two and a half years at an unhealthy post, and then they rotate around the world and back here to Ottawa in order to give them a variety of experience in serving Canadian business interests.

It is also relevant, I think sir, that in all of our offices our trade commissioners are backed up by what are called local assistants. These are people who are on the ground and of course have the complete facility of the native language.

That in no way however suggests we would not be interested in a greater show of interest from Canadians with the necessary academic and business qualifications who in addition to a capacity of the tongues of Canada also have a supplementary capacity in another language. That certainly is a factor of merit and consideration.

Mr. Macdonald (Rosedale): What about offering them supplementary compensation to attract them into the field if they have this skill.

Mr. Winters: I do not know. I think you should try to get people who are as flexible as possible. I know some Japanese are very dominant now in the commercial world; they are everywhere. They are always native-born Japanese who can go anywhere in the world. They are not Canadians who are trained in Japanese. They obviously feel that flexibility is what they are seeking. They really have done a remarkable job.

Mr. Macdonald (Rosedale): But the Japanese do not have the option that we have.

Mr. Winters: That is true but there are a lot of North Americans living in Japan now.

Mr. Macdonald (Rosedale): I have a final question to the minister. Has there been any effect on his department's dealings with mainland China because of the internal political events going on there?

Mr. Winters: No, none at all. The contracts we have are being serviced easily, as they say in banking terms, taking delivery on time and paying promptly. This is no indication of any disturbance in our commercial relations.

The Vice-Chairman: Gentlemen, you will find on pages 1 to 12 in the Minutes and Proceedings of Evidence number 1 the Main Estimates for 1967-68 of the Department of Trade and Commerce. I have no other names on my list for questions.

Mr. Lambert: I have questions in other fields. I am just waiting for a turn again.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I would like to ask questions on a different topic. I think perhaps Mr. Lambert had better go ahead.

The Vice-Chairman: I do not know if as Chairman I am allowed to ask questions but I will ask a question. Mr. Minister, last year when you were before this Committee you were asked about the possibility of Great Britain entering the Common Market. If I remember your reply you said it was a hypothetical question but now Great Britain has made formal application to enter the Common Market. When you and your Kennedy colleagues met this year or late last year with the British member of the Cabinet of Great Britain was there any question at that time of the possibility of Great Britain entering the Common Market and if so how will Canadian trade be protected?

Mr. Winters: Yes, we have met with them on a number of occasions. I have had several conversations with the President of the Board of Trade, Mr. Jay. I had one with Mr. Wilson and then subsequently this year, in April, we had the Ministerial Conference in London at which we met with Mr. Wilson at the opening session. We discussed the Common Market, which was an item on the agenda, quite thoroughly. They briefed us as well as they were able to. Mr. Wilson was at that stage just in the middle of his tour around the EEC countries of Europe.

He told us the reactions he had received and he said they would establish machinery for consulting with us as they went along, which they have done. We are taking advantage of the opportunity to keep in close contact with them. They volunteered to do the best they could to protect what they consider to be essential Commonwealth interests and we of course asked that they do so. This was borne in mind, I think, in the discussions and negotiations at GATT and I think their attitude toward Commonwealth trade was a factor in ultimately arriving at a wheat agreement.

In addition to that they have undertaken with us to explore the areas in which they can protect Commonwealth trade as they go along. I do not know whether we have people in London at the moment, but we certainly have established a committee of people from the Department of Trade and Commerce who will be in London to watch these developments and take advantage of the opportunity to consult as we go along. I am told that they will be there toward the end of this month.

The Vice-Chairman: Still dealing with the Common Market but in another direction, I understand that this year or late last fall there was a meeting of the presidents of the American countries to discuss the possibility of a Latin American Common Market. I understand it may be far in the future and may be established only in the 1980's but have you any comments on this possibility?

Mr. Winters: No. We feel that we should be going after the Latin markets of the western hemisphere. High on my list—if I can get around to it; I have been travelling so much—is a mission down there. I would like to follow up some efforts that have been made there in the past, but we have never developed the business with Latin America that we would like to develop.

Years ago it was a pattern of our way of life in Nova Scotia to sell them large amounts of salt cod fish but that tapered off because of exchange difficulties, particularly in Brazil. I made an effort some years ago to revive that but with partial results only. There are many areas in which I think the field of trade could be expanded in Latin America, and I think we should pursue them more than we do now.

The Vice-Chairman: Has the Canadian government managed to increase its shares in the Inter-American Development Bank and Export Credit Insurance Corporation with Latin American countries?

Mr. Winters: We participate now with the Inter-American Development Bank and Export Credit Insurance Corporation.

The Vice-Chairman: I think it is in the amount of about \$40 million; you have lately increased this by \$10 million. In other words, our figure seems to be a very small one compared with the amount directed to this country by other countries in the amount of \$1,300 million. Is it not a fact, Mr. Minister, that our country is very, very interested in Latin American business?

Mr. Winters: I do not think that has in any way impeded our trade. If we find that credit facilities available through this channel are impediments in the way of trade, we will certainly look at it. That is one of the things we have to look at in connection with our aid program.

Mr. Lambert: In the field of the Common Market, is it not the government policy at the present time to approach Britain's application to enter the EEC on more or less an ad hoc basis depending upon proposals they have put forward, and then the government will assess them and be faced with the declaration by the British government that they want to do this or do that?

Has there actually been a firm declaration of the Canadian stand as a result of Britain's application that we would hope that they would look to certain guarantees with regard to trade, particularly in the field of agriculture—it seems to me that our friends in New Zealand and Australia have adopted that position—or are we merely going to play it by ear?

Mr. Winters: We have made declarations on this, Mr. Lambert. We issued a communiqué following the meeting in London, in which our attitude toward British entry into the Common Market was spelled out as specifically and precisely as anything can be spelled out in that international world of language.

What we have said, in effect, is that it is a decision for them to make and that we are not going to do any backseat driving. It is a decision we know they will make in their own interests, having regard as much as they can, within the framework of the Treaty of Rome, to their responsibilities toward their other trading partners, and particularly their members in the Commonwealth of Nations. They have accepted this and said they would consult with us as they go along. To that extent

it is on an ad hoc basis. That is the way it stands now and nothing has changed since that.

Mr. Lambert: It is my impression that one of the features of the EEC is that there is a rather high tariff wall with regard to agricultural products, and that we will find that for a lot of commodities which normally enter into Canadian-British trade, if there is adherence by Britain to the Common Market, that even their merchant activities and their brokerage activities will be affected. This would seriously impede the marketing of many of our staple agricultural export commodities.

Mr. Winters: That is undoubtedly true; there would be dislocations. The fact that we were successful in the Kennedy Round, and when I say "we" I mean all the nations participating there were able to achieve success, means that the barriers to trade are not going to be as great as they were, and the dislocations resulting from Britain getting in will not be as severe as they might otherwise have been.

I do not mean to imply at all that there will not be some very severe dislocations for a while until such time as we can pick up the slack through broader access to a wider market. I think we have to look at those areas on a long-term basis.

It remains to be seen how much flexibility Britain has if she is really intent on conforming to all the requirements of the Treaty of Rome. I think she will find that her elbow room is fairly limited. So we will have to wait and see; it is a pretty "iffy" situation anyhow whether or not Britain will get in under the current situation in the Common Market. Mr. de Gaulle has expressed himself in pretty blunt terms but Britain is going to persevere, so they say. It would be difficult at this time to forecast or project much of a program on any proposition which may or may not develop.

Mr. Lambert: Thank you, Mr. Chairman.

The Vice-Chairman: Mr. Cameron.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I would like to ask the Minister to make some further comments on a matter that he discussed in the House on June 5 with my colleague, Mr. Saltsman, on the question of the nickel production and supplies of nickel for the domestic market.

I have here a report in the *Globe and Mail* of April 20 of the annual meeting of the International Nickel Company, and this does

not seem to track very well with the reports of DBS and with your own statement, Mr. Minister, about the production of nickel. Mr. Wingate had this to say:

Production this year will be a record but not as great as last year's deliveries of 500.2 million pounds, which included 100 million pounds of U.S. Government surplus nickel sold at no profit.

I was wondering if I could get some explanation of what that means.

I have also had reports of domestic users who have been restricted in their deliveries while at the same time our exports to the United States have been increasing. The fact is reported that in 1966 we exported 1.7 million pounds more than we produced.

I was wondering if the government has in mind any possibility of stockpiling a certain amount of it here in Canada rather than leaving some of our domestic users in short supply and continuing the exports to the United States at the rate they are presently being undertaken.

I would like the Minister, if he could, to explain why the President or the Chairman of the International Nickel Company says that this year's production will be a record although not as great as last year's deliveries, whereas the DBS reports that we produced less both in 1966 and in 1965 than we had in previous years. There seems to be some confusion here.

Mr. Winters: The stockpile in the United States has distorted the supply and demand figures. There has been a draw-down on the stockpile which gave the impression that there was a greater availability of nickel than there really is from world production. World production is not able to meet world demand at the present time, and the stockpile is getting pretty well eroded. The strike at Sudbury last year distorted the production figures considerably and set back the supply side of the supply and demand relationship.

International Nickel has been pressed to meet demands on a world basis for nickel; they have not been able to cope with it. In this situation, they have undertaken to provide to Canadian users 100 per cent of their utilization of last year.

Mr. Cameron (Nanaimo-Cowichan-The Islands): But with no provision for any expansion in their operations.

Mr. Winters: Well, they undertook at least 100 per cent, as I said, but to do this they have had to cut back on some of their foreign customers. At the moment this is reflecting itself into some secondary situations such as scrap of stainless steel and nickel alloys. We are today, as a matter of fact, taking control of the export of stainless steel scrap and nickel alloy scrap which is used in the making of stainless steel.

Because of offshore buying, largely from the United States—they put on controls and we are going to match them, otherwise the control will not be effective—we intend to maintain the open border policy because a lot of the scrap used in this country comes from the United States, particularly for our outstanding producer of stainless steel which is based in Welland right next to the United States border. We are taking that measure of control.

We have been working with the nickel producers in Canada to voluntarily allocate, and so far it has been pretty good. We have one or two situations now that are rather difficult where the users are crying for more nickel, and we are going to try through one means or another to see if enough can be diverted to them so as to avoid repercussions in industries which are dependent upon them for supplies of nickel, particularly the automobile industry.

The world situation is tight. In light of this the International Nickel Company wants to bring in more production. The only reserves they have been able to find so far are much lower grade reserves than they have developed either at Sudbury or at Thompson. They could not do this with the present cost structure and the price structure, so they sought a price increase last year.

Having regard to the situation ahead, as well as our importance as an export country, we did not stand in their way in that price increase, and the United States were able to fight it through; they got a price increase in the nickel which will help them to develop some lower cost deposits which they are doing now. We hope the situation will right itself in due course; it takes time to bring in a mine, as you know. They are working on some new shafts and some new mines right now.

We are going to try to spread the available supplies of nickel as well as we can over our domestic users, and also we want to have in mind that it is one of Canada's outstanding exports and we like to export as much nickel as we can. So we have to balance between our domestic requirements and the desirability of exporting.

Mr. Cameron (Nanaimo-Cowichan-The Islands): The article goes on to say:

The Inco chairman said the so-called black-market price of nickel had fallen from last year's \$3 a pound to a current level of about \$2.

Then in brackets there is:

The company raised its price for electrolytic nickel last November to 85 cents a pound in the United States, and 92.15 cents in Canada.

The existence of a black-market price would indicate that there must be quite a severe shortage of nickel for domestic supply.

Mr. Winters: Oh, there is; if you try to pick it up outside the normal channels you will have to pay a premium price for it. There are very few producing countries in the world. If you try to buy nickel now from any other producing country than Canada, you will probably have to pay an awful lot higher than we pay domestically for nickel.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Does the government not think that the primary objective of the government should be to see to the expansion of Canadian industry that is dependent on nickel supplies?

Mr. Winters: We think that is a primary objective; but, as I said, we have got to balance that against our export commitments, and we attach great importance in Canada to a high level of exports.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Even at the price of not getting the domestic expansion that we could get?

Mr. Winters: No: we have favoured domestic expansion so far by providing them with nickel requirements up to at least 100 per cent of their 1966 utilization; even though suppliers who get their supplies from Canada have been cut down from that. Generally speaking, the situation in Canada has been pretty equitable. There has been no great dislocation except in these one or two instances I mentioned, and we are trying to do something about them.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Thank you; that is all.

The Vice-Chairman: Does anyone have a further question on this subject?

Mr. Lambert: Mr. Winters, you mentioned action taken towards the encouragement of a

new International Sugar Agreement. Am I right in thinking that Canada did not participate in the past in the International Sugar Agreement?

Mr. Winters: No; what we did not participate in was a Commonwealth sugar agreement. We do participate in the International Sugar Agreement.

Mr. Lambert: It seems to me that about two years ago, when there was a wild fluctuation in the retail price of sugar, one of the reasons that was given was that we did not participate in the International Sugar Agreement, and that therefore our long term purchases at a fixed price were not available to even out the price of sugar.

Mr. Winters: I think that is the Commonwealth Sugar Agreement you have in mind.

Mr. Lambert: Well, it seems to me that the information given in the House in reply to questions was that Canada did not participate in any international sugar agreement.

Mr. Winters: I will ask Mr. Warren to support this, but what was meant at the time must have been the Commonwealth Sugar Agreement. Is that right, Mr. Warren?

Mr. Warren: Yes, sir, that was the substantive issue at the time on the rise in prices in Canada. We are members of the International Sugar Agreement, the price provisions of which are not now operative; they have broken down. We are working internationally to see if we can help in the negotiation of a new and better international sugar agreement which would be workable.

At that time the Commonwealth sugar agreement did provide, for example, to Britain a certain quantity and negotiated contract price. Canada did not have such arrangements. Canada has traditionally relied on the preference that we give to Commonwealth sugar producers. This is a very remunerative method of access to the Canadian market, to guarantee our supply. There was no shortage of supply, but our pricing was based on the London price, which rose.

Mr. Lambert: Yes; but that was the London price on the free market.

Mr. Warren: Yes.

Mr. Lambert: The net result was, though, that there was a wild gyration in the prices listed on the retail market. Is it felt that if we

get adherence to a workable international sugar agreement, we will be able prevent that?

Mr. Winters: There will undoubtedly be a price range in any international sugar agreement.

Mr. Lambert: If I remember rightly, at the Commonwealth Parliamentary Association conference in Wellington, New Zealand, in November of 1965, one of the subjects of discussion which generated what I considered to be a good deal of intelligent discussion was the question of these commodity agreements and the stabilization of commodity prices.

Many of, shall we say, the more junior members of the Commonwealth, who are in the category of developing nations, felt that countries such as Canada should very definitely adhere to this type of agreement in order to give a stability of price to sugar, tin, rubber and cocoa. However, I must confess that the impression I, and, I think, many of my colleagues, had was that Canada was just subject to the whims of the free market.

Mr. Winters: Oh, we are now; but we are actively engaged in trying to encourage an international sugar agreement.

Mr. Lambert: You would still get the wild gyrations. Even last week when you were making the statement you mentioned that the price of sugar had firmed up. Actually, it had gone up by 90 cents a bag, but two days later they announced a cut-back of 60 cents a bag. This does not indicate much stability of price.

Mr. Winters: That was based on the London commodity exchange, as were the swings on the copper market based on the London metal exchange a short time ago; and that levelled out. Somebody happens to get a situation on the market for one day and it goes up; then they lose it and it goes down. It is fighting on the market, based on spot amounts of sugar. I think it would be valid to have commodity trading if there were an international sugar agreement on a commodity such as sugar on which so many of these less developed countries are dependent for their livelihood.

Mr. Lambert: Particularly in our relations with the Caribbean countries, in what we hope to be an expanding sphere of development. Sugar has been a stable crop with many of them, and it has, of course, been very difficult for them to handle. I think they have two options. Either they get an international sugar agreement which guarantees them rea-

sonable stability, or we work with them in developing viable alternate fruit and vegetable crops.

Mr. Winters: As you may know, we have done something to help there. You may recall that we told the Caribbean countries that we would remove the remaining tariff of 29 cents a hundredweight of sugar on the preferential system, and that will be made available to the extent that we can direct it to the sugar growers at the end of the year in respect of the sugar they have sold to Canada during the year, up to a total of 250,000 tons from those countries, which is their average to us over the past five years.

The Vice-Chairman: Will you allow a supplementary on that point, Mr. Lambert.

Mr. Lambert: Certainly.

Mr. Winters: The figure should be 275,000, Mr. Chairman.

The Vice-Chairman: Mr. Winters, if a new international sugar agreement is signed how will this affect our production of sugar beets in Canada?

Mr. Winters: I do not know. It will depend upon the price, I suppose. It would either encourage or discourage the production of sugar beets.

The Vice-Chairman: As you are aware, the government increased the price support of sugar this year?

Mr. Winters: They had to do that to get enough sugar beets in the Niagara area to maintain the production of Mr. Lind's plant at Chatham. The plant is not owned by Mr. Lind; it is owned by the C and D sugar company which said, I think, that they could not operate it unless they were guaranteed the production from some 20,000 acres of sugar beets. In order to encourage that amount of production the government had to support the price of sugar.

The Vice-Chairman: If such an agreement were signed would it improve Canadian sugar beet production?

Mr. Winters: Well, it all depends on what price it is sold at, Mr. Chairman.

Mr. Lambert: Yes; and not only are Western or Southern Ontario concerned. I am concerned about the irrigation areas of Alberta where there is a certain amount of sugar beet

grown; and I think that perhaps ultimately the irrigation area of the South Saskatchewan dam project will also be involved.

It is a poor proposition, in some ways, to cut off your nose to spite your face. I can see that there could be a conflict here. Mr. Clermont has brought out that participation in an international sugar agreement would be done at the ultimate expense of our domestic sugar production. This is one of the factors that we must examine.

Now, at what stage are the negotiations of this international sugar agreement? Are we encountering some real difficulties, or are negotiations progressing satisfactorily?

Mr. Winters: No, I would not say they are progressing satisfactorily. We have been doing what we can to bring the various countries to the discussion table. There are problems. I am not aware of all of them, but it has always been difficult to get an international sugar agreement because it is notorious that there are several countries that bolt any agreement on sugar that you try to arrive at.

Mr. Lambert: Therefore, one cannot have too much hope about this?

Mr. Winters: Well, we would like to feel that we would be hopeful, and we have assured our world colleagues, particularly the Commonwealth Caribbean countries who are pushing very hard for this to be supported, that we are doing everything we can. We will, and we are. I would like to feel that there is hope, but I cannot speak with great competence at this stage because we have not got very far.

Mr. Lambert: Thank you, Mr. Chairman.

The Vice-Chairman: Are there any further questions?

Mr. Macdonald (Rosedale): I wonder, Mr. Chairman, if I could just go back to this Caribbean deal. Do I understand that the current arrangement with the Caribbean is that we have dropped the duty from the British preferential level down to zero? In other words, for them it is duty free? Have we got a GATT waiver for that?

Mr. Winters: We are going to do it by a Treasury transfer. At the end of the year, when we know the sugar they have sold to Canada, we will transfer to their governments amounts based on the number of tons of sugar they have sold, multiplied by this factor of 29 cents per hundredweight.

Mr. Macdonald (Rosedale): What does that do for the Canadian consumer?

Mr. Winters: It does not do anything for the Canadian consumer.

Mr. Macdonald (Rosedale): In other words, he is still paying the same amount that he would have paid. In other words, this is a form of external aid?

Mr. Winters: It is a form of external aid, if you care to regard it in that way. It is related to sugar specifically, and we hope it will go back to the sugar growers.

Mr. Lind: If we are through with the subject of sugar I would like to go on to something else.

The Vice-Chairman: Is it a new subject, Mr. Lind.

Mr. Lind: It is not sugar; it is mining nad minerals.

The Vice-Chairman: Have you a question on sugar.

An hon. Member: No.

Mr. Lind: Mr. Chairman and Mr. Minister, I was wondering about the position of zinc and lead on the world market. The demand for zinc, as I understand it, is dropping off, but lead is still fairly brisk.

Mr. Winters: Fairly brisk; they are in good supply. I do not think there are any problem in zinc and lead. Zinc is in a rather "easy" position around the world and the price has been a little weak, but there is no problem with supply.

Mr. Lind: Do we have any problem in disposing of our production of zinc and lead?

Mr. Winters: Well, we are always seeking greater access to the American market. At the moment I really know of no great surpluses in Canada that are seeking markets. There are some price reductions; the price is a little weak, as I said. However, I cannot be specific about it because I have not got the current information at hand.

Mr. Lind: Thank you.

The Vice-Chairman: Are you through, Mr. Lind.

Mr. Lind: Yes, thank you.

Mr. Laflamme: Mr. Winters, I would like to draw your attention to the last report of the

current year of the textiles industry. They are deeply concerned about the importation of such large quantities of competitive products from other countries.

Although this industry generally is trying to increase its production facilities it cannot in many ways, compete with the imports. They have increased their production, but not to the extent that they should be able to, and have already made great losses because they cannot compete at all in some kinds of materials. I would like to hear your comments on this situation.

Mr. Winters: Well, textiles are a world commodity that most countries want to make and make in good quantity and quality and for which they are seeking outlets around the world. They are one of the few things that the less developed countries do make, and somebody has got to buy them if we mean what we say about trying to help these countries to develop.

Now, the British government has, I think, been extraordinarily good about admitting textiles into their country. They have increased their intake to the point where their own production has decreased substantially. We have voluntary quotas from a number of countries such as Hong Kong and Japan—I am not sure about Taiwan and Macao; and a few others are constantly pressing us to increase. I understand we bought some textiles from Russia last year. This year we were not as successful because prices were high. It is one of those items of world trade that everybody makes. The warm countries have cotton of their own and it will always be a problem for a higher cost country such as ours that is trying to preserve its textile industry.

The Vice-Chairman: But have the quotas from the countries you mentioned been increased the last couple of years?

Mr. Winters: I will ask Mr. Warren to answer that. It comes within another department and I am not familiar with it.

Mr. Warren: They are usually negotiated annually and there is usually pressure of course from the supplying countries for very large increases in the size of the quotas to which they are held in selling to Canada. But the negotiators usually hold them to a rate of growth which will not be disruptive to the Canadian market when and if they agree to

increases in quotas. The percentage growth is not such as to cause additional disruption.

The Vice-Chairman: I am pretty sure, Mr. Minister, that you cannot complain about those companies. They are actually using all the facilities they can to increase their production at the lowest possible price. Even then in many ways they cannot compete with the importation production. I really think this is very difficult to settle unless you continuously revise the quotas for countries trying to export to Canada, if you want to have a stable textile industry.

Mr. Winters: It depends on what is the best utilization of one's natural resources. If somebody can do things better than we can then perhaps we should concentrate on doing the things that we do best. Canada is the freest country in the world to import into. We have some non-tariff barriers, not too many, but I would guess that the non-tariff barriers to trade are going to be a subject in the next round of negotiations, and where we have these voluntary quotas it is a question of how long they will stand up. The only protection we will have then will be the items in the tariff. However, that is a long way off and for the time being we have the protection of the voluntary quotas which have been respected very well by the countries that entered into agreements with us.

The Vice-Chairman: In your credit you show an amount of \$135,000 for an office in Dallas. Was that office opened or not?

Mr. Warren: It is to be opened.

The Vice-Chairman: I see also that for 1967-68 there is no credit for the trade offices in Bombay and Salisbury. Are these offices closed or what is the situation?

Mr. Winters: I would not think that we are operating in Salisbury right now. It must be closed.

Mr. Warren: Yes.

The Vice-Chairman: And Bombay too?

Mr. Warren: In Bombay there was not enough business to warrant the application of funds and personnel.

The Vice-Chairman: In your remarks, Mr. Minister, you commented on the seminar of the trade commissioners and the visits they made throughout Canada, starting in Montreal. There is an article in the *Financial Post*

of June 3 with the heading: "Trade commissioners go abroad with bags bulging". Is that a title or is it a fact?

Mr. Winters: I think it is a title. It is one of these interpretative titles. They did have a very successful visit here and I expect that while this is figurative the business that will develop from this mission across Canada will prove to be worthwhile.

The Vice-Chairman: I understand this helped a lot of the firms that did not attend the meeting held in Ottawa in 1963?

Mr. Winters: They could not attend, yes.

The Vice-Chairman: Your commission, in going through Canada, gave added opportunity to these individual firms to find markets for their products?

Mr. Winters: Yes, that is right. The smaller companies are the ones we try to get to. The bigger companies can take care of themselves but the smaller companies do not have the facilities to get into the export trade. We tried bringing the facilities to them and we succeeded. We had some 16,000 or more interviews, I think, with some 2,500 companies and most of them were the smaller companies that have not the export facilities available to them. They took advantage of the fact that our trade commissioners came to them.

The Vice-Chairman: Gentlemen, have you any questions?

Mr. Lind: During the initial stage of the United States-Canada auto trade pact several of our smaller stamping factories ran into some difficulties. Has this been overcome? Have our automobile parts manufacturers in Canada increased very substantially over the last year or year and a half?

Mr. Winters: Generally, I think they have. As you know, this was put into effect by another department and also before I came into the government so it is not my responsibility. However, Mr. Warren says that the dislocations were much less than the officials had anticipated at that time. I think it is settling down very well. I had the pleasure of participating recently in the opening of a few plants which have sprung up because of the auto parts pact. They are bigger operations taking advantage of the scale that is now available through the North American market. I think on the whole that while there have

been dislocations, and there will undoubtedly be more, the net effect for Canada has been very good.

Mr. Lind: Have our smaller manufacturers been able to compete with the Americans and obtain a fair share of the American market?

Mr. Winters: If they can get access to the American market, which they can do now, and extend their runs they can make their costs competitive, and they do.

Mr. Cameron (Nanaimo-Cowichan-The Islands): There was one question, Mr. Minister, I forgot to ask you. I do not know whether you have the figures. What proportion of the total world production of nickel is produced in Canada?

Mr. Winters: I think it is about 60 per cent now. It is much smaller than it used to be because some pretty big developments have grown up in New Caledonia and elsewhere. I think ours is still of the order of 60 per cent.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Thank you.

The Vice-Chairman: Mr. Warren, in the material delivered to the members of this Committee last Wednesday night there was included a pamphlet on Western white spruce. Is your Department publicizing our hard woods? I am thinking of birch in Quebec.

Mr. Warren: Mr. Harvey, would you like to reply to that question?

Mr. Dennis Harvey (Assistant Deputy Minister, (Commodities and Industries): Mr. Chairman, all exportable species of woods are reflected in our trade promotion program, particularly in our United States market program. To some extent this takes the form of export promotion of semi-shaped or partially fabricated wood products as distinct from the export of lumber *per se*. Indeed, we include in our export promotion displays and publicity the various industrial uses of birch. It is quite a prominent feature. It has been a rather successful program from time to time. Furniture components particularly, made of birch, have done rather well in the United States market.

The Vice-Chairman: Mr. Minister, in view of the world events of the last two or three weeks what are the possibilities for our oil industry on the world market?

Mr. Winters: I rather think that people who have been getting their oil from the Middle East would now perhaps be inclined to look to more stable markets. We think that the prospects for Canadian oil are good.

The Vice-Chairman: Are there any further questions to be directed to the Minister?

Mr. Lambert: I have one having to do with the Standards Branch, looking to the future. I was wondering what work was being done by the Branch in working with organizations that are developing the use of the metric system. There is, shall we say, a creeping use of it in Canada and there are other countries showing a strong indication to move into the metric system. What work is being done on a research basis since there is a strong flavour that the Standards Branch is doing a good deal of research work in the improvement of standards? But correlated with that is the possibility of a greater worldwide movement toward the metric system.

Mr. Winters: May I ask Mr. Warren to answer that.

Mr. Warren: Mr. Minister and Mr. Lambert, the international system of measurement, the metric system, as you are probably aware, is the legal system of measurement in Canada and is so prescribed in the Act. The question of the application of the metric system is one which is giving rise to a good deal of study and attention now because of the developments which have been reported to the Committee.

We have had preliminary work done by our Trade Commissioner offices abroad as to the possible adverse or positive effects on Canadian trade of a more general application in Canada of the metric system of measurement. We are watching very carefully of course the developments in other countries but particularly the countries with which we have the most trade. Whereas the metric system is of general use in Europe in most of the developing countries and Britain is moving to adopt the metric system, the American authorities and American industry have not yet moved extensively in this direction. That is where there is a great deal of tie-in in our trade between companies in North America.

I think there is an increasing awareness throughout Canadian industry that the metric system may be on the way. Already the metric system is in common use in certain industries such as the pharmaceutical industry and

the photographic industry. I think we will see a gradual evolution in that direction as industry itself takes the initiative in wanting to shift over. We are watching this very carefully.

Mr. Lambert: The reason I raised the point is that the consumer here in Canada—I do not know that you are necessarily involved with this—is faced with more and more items of retail trade, such as toothpaste and what have you, the contents of which are being expressed in grams. As far as the public are concerned it might as well be in Urdu or something else. It only serves to confuse.

The Vice-Chairman: Is it the intention of the United States to adopt the metric system?

Mr. Warren: The authorities in the United States are watching the developments of industrial interests in this sector very carefully, as are we. My own view is that in areas where the United States has a dominant technological or supply position, it may be some time before there is a motivation to move to the international system of measurement in those sectors because they are world leaders in those sectors and the world tends to adapt to their measurements. On the other hand, in areas where the United States may not be in

that position and where more and more world trade is taking place under systems of metric measurement, I think the incentive will be greater for industry to move in those areas. I think it is more likely to be an evolutionary process than a dramatic decision by U.S. authorities to adopt metric.

The Vice-Chairman: Are there any other questions, gentlemen, to be directed to the Minister? If not, we will adjourn until Thursday at 11 o'clock.

On your behalf, gentlemen, I would like to thank the Minister very much for his presence here last Thursday and again today. I understand the other witnesses will be here on Thursday.

Mr. Warren: I will not be here because I have to attend a meeting of the National Design Council in Winnipeg, but the senior officers of the department will be here to answer your questions. I do not know whether or not the Minister will be available on Thursday.

The Vice-Chairman: It is our intention to go on to Item 5, Trade Commissioner Service, and so on.

Thank you very much Mr. Minister and gentlemen.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations
and/or a translation into English of the French.

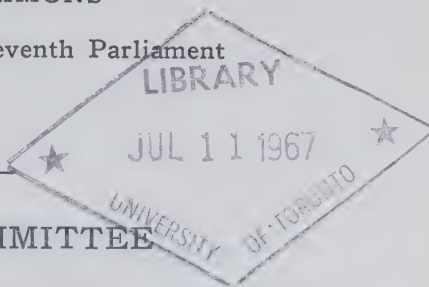
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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967



STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, JUNE 15, 1967

RESPECTING

Main Estimates, 1967-68, Department of Trade and Commerce
(Including the Dominion Bureau of Statistics)

WITNESSES:

From the Department of Trade and Commerce: Messrs. Maurice Schwarzmenn, Assistant Deputy Minister (Trade Policy); T. R. G. Fletcher, Assistant Deputy Minister (Trade Promotion); Dennis Harvey, Assistant Deputy Minister (Commodities and Industries); L. L. Marks, Chief, Financial Services Division; Patrick Reid, Director, Canadian Government Exhibition Commission. *From the Dominion Bureau of Statistics:* Mr. Walter E. Duffett, Dominion Statistician.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON
FINANCE, TRADE, AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Laflamme,	Monteith,
<i>Cowichan-The Islands</i>),	Lambert,	More (<i>Regina City</i>),
Cantin,	Latulippe,	Noël,
Comtois,	Leboe,	Tremblay (<i>Matapédia-</i>
Flemming,	Lind,	<i>Matane</i>),
Fulton,	Macdonald (<i>Rosedale</i>),	Valade,
Gilbert,	Mackasey,	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDERS OF REFERENCE

TUESDAY, June 13, 1967.

Ordered,—That the names of Messrs. Tremblay (*Richelieu-Verchères*) and Noël be substituted for those of Messrs. Addison and Chrétien on the Standing Committee on Finance, Trade and Economic Affairs.

Ordered,—That the names of Messrs. Comtois and Cantin be substituted for those of Messrs. Munro and Tremblay (*Richelieu-Verchères*) on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, June 15, 1967.

(4)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:20 a.m. this day, the Vice-Chairman, Mr. Clermont, presiding.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Cantin, Clermont, Gilbert, Latulippe, Macdonald (*Rosedale*), McLean (*Charlotte*), More (*Regina City*), Tremblay (*Matapédia-Matane*)—(10).

In attendance: From the Department of Trade and Commerce: Messrs. Maurice Schwarzmans, Assistant Deputy Minister (Trade Policy); T. R. G. Fletcher, Assistant Deputy Minister (Trade Promotion); Dennis Harvey, Assistant Deputy Minister (Commodities and Industries); L. L. Marks, Chief, Financial Services Division; Patrick Reid, Director, Canadian Government Exhibition Commission; R. E. Latimer, Director General, Trade Relations; V. J. Macklin, Director, Economics Branch; Marcel Legris, Director, Personnel Branch; Roger Rousseau, Trade Commissioner Service; R. W. MacLean, Director, Standards Branch; G. E. Anderson, Assistant Director, Standards Branch; D. B. Laughton, Director, Agriculture and Fisheries Branch; Bruce Kidd, Grain Division; B. F. Armishaw, Executive Assistant to the Deputy Minister.

From the Dominion Bureau of Statistics: Messrs. Walter E. Duffett, Dominion Statistician; H. L. Allen, Assistant Dominion Statistician; S. A. Goldberg, Assistant Dominion Statistician (Statistical Integration); D. M. Greenway, Chief, Financial Services; V. R. Berlinguette, Director, Industry Division; C. D. Blyth, Director, National Accounts and Balance of Payments Division; D. A. Traquair, CLURA; G. A. Wagdin, Director, Governments and Transportation Division; L. A. Shackleton, External Trade Division; W. D. Porter, Director, Census Division.

On motion of Mr. Macdonald (*Rosedale*), seconded by Mr. Cameron (*Nanaimo-Cowichan-The Islands*),

Resolved,—That the evidence adduced at the meeting of Tuesday, June 13, 1967, be incorporated as part of the official Proceedings of this Committee.

The Committee resumed consideration of the 1967-68 Estimates of the Department of Trade and Commerce.

The Vice-Chairman called Item 5, Trade Commissioner Service, Administration, Operation and Maintenance—\$8,429,500.

Messrs. Schwarzmans, Fletcher, Harvey and Marks were questioned.

Item 5 was carried.

The Vice-Chairman called Item 10, Canadian Government Exhibition Commission—\$5,258,000.

Messrs Fletcher and Reid were questioned and the item was carried.

Item 20, Standards Branch, Administration and Operation, was carried.

On Item 29—Canadian Government participation in the 1967 World Exhibition, Montreal—\$6,750,800, Messrs. Schwarzmann and Marks were questioned and the item was carried.

Item 32—Grant to the Pacific National Exhibition, Vancouver—\$800,000, was carried.

The Committee reverted to consideration of Item 1, which was carried.

The Vice-Chairman thanked the officials of the Department of Trade and Commerce for their assistance to the Committee, and the witnesses withdrew.

The Vice-Chairman called Item 1 of the 1967-68 estimates of the Dominion Bureau of Statistics—

Administration and Operation including the fee for membership in the Inter-American Statistical Institute and a contribution of \$500 to the International Statistical Institute \$23,780,000

At the request of the Vice-Chairman, Mr. Duffet made a brief statement concerning the operations of the Bureau of Statistics.

Item 1 was allowed to stand.

At 1:15 p.m., the Committee adjourned until 11:00 a.m., Tuesday, June 20, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, June 15, 1967

The Vice-Chairman: Gentlemen, I understand that in about five minutes the Justice Committee will conclude its meeting and three members from that Committee will come here.

I will now ask the gentleman to my right to introduce the officials of the Department of Trade and Commerce.

Mr. Maurice Schwarzmann (Assistant Deputy Minister (Trade Policy) Department of Trade and Commerce): Mr. Chairman, I think the Minister is due to arrive shortly. At the moment he is tied up in a meeting of the Cabinet.

Mr. Warren, the Deputy Minister, is not in Ottawa today. My name is Schwarzmann and I am the Assistant Deputy Minister of Trade Policy. On my right is Mr. Marks, who is in charge of financial administrative matters under Mr. Rodger in the Department. Mr. Armishaw is the Executive Assistant to the Deputy Minister and next to him is Mr. Latimer, who is the General Director of the Office of Trade Relations which deals with trade policy matters in the Department. Mr. Macklin is next to him and is in charge of the Economics Branch of the Department. Mr. Fletcher is the Assistant Deputy Minister, External Trade Promotion. Mr. Rousseau is in charge of the Trade Commissioner Service and Mr. Reid is in charge of Trade Fairs. Mr. Legris is in charge of Personnel under Mr. Rodger, Mr. Laughton is in charge of the Wheat and Grain Division of the Department, and Mr. MacLean is director of the Standards Branch. Mr. Anderson is the Assistant Director of that particular Branch.

The Vice-Chairman: Gentlemen, last Tuesday we stood Item 1. We will proceed now with Item 5.

Department of Trade and Commerce

5. Trade Commissioner Service—Administration, Operation and Maintenance
\$10,832,100

You can find the details on page 495, but in the meantime, before we have a quorum, if you wish to ask any general questions of these gentlemen you may do so.

Gentlemen, I now see a quorum. Last Tuesday we heard evidence, but we did not have a quorum. Therefore, I would like to have a mover and a seconder for the following: That the evidence adduced at the meeting of Tuesday, June 13, 1967 be incorporated as part of the official Proceedings of this Committee.

Mr. Macdonald (Rosedale): I so move.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I second the motion.

Motion agreed to.

The Vice-Chairman: As I just mentioned, Item No. 1 was stood last Tuesday. Is it now agreed that we move to Item No. 5?

Mr. Ballard: Does this mean that Item No. 1 will still remain stood?

The Vice-Chairman: Yes.

Mr. Ballard: Could we not pass it now, Mr. Chairman?

The Vice-Chairman: Is there any objection to passing Item No. 1 now?

Mr. Ballard: I am not too sure, and perhaps Mr. More would clarify it, but from what you said I understood we were going to leave Item No. 1 in abeyance for the time being and go on to Item No. 5. If that is the case, I would be agreeable to it.

The Vice-Chairman: Gentlemen, we will now proceed with Item No. 5. Are there any questions on this Item?

Mr. Ballard: Mr. Chairman, I wonder whether the Deputy Minister could give us some idea of the necessity for the tremendous increase in the amount allocated for Unallocated and Miscellaneous Items on page 497? "Miscellaneous" usually implies small unclassified amounts, but I notice there is an \$800,000 increase in this Item this year.

Mr. Schwarzmann: Could I ask Mr. Fletcher, the Assistant Deputy Minister, Trade Promotion, to deal with this?

Mr. T. R. G. Fletcher (Assistant Deputy Minister, External Trade Promotion) Department of Trade and Commerce: Mr. Chairman, the amount in question shown is \$317,730. I believe that is the sum which Mr. Ballard inquired about.

Mr. Ballard: No, on page 497 about half way down the page there are 23 man-year positions this year as opposed to one last year, and the increase is from \$202,555 to \$1,004,830.

Mr. Fletcher: Actually, sir, that figure of \$1,004,830 is composed of two main elements. The larger, \$687,150, is the moneys related to the general salary revisions for the year which were not included in the detailed statistics, but were given to us as a figure subsequently. The balance of this \$1 million plus figure is \$317,730 which, in our detailed statistics, is described as Unallocated and Miscellaneous and, by interpretation, relates to what I would describe as the "rump" operations that we continue to maintain in certain foreign countries where we do not have a formal Post.

It also includes the estimates appropriate to our new Belgrade office opened about one month ago which were not specifically included in the estimates for the year at the time they went to print. For example in Havana, Cuba, we have no Trade Commissioner in residence at the Canadian Embassy, but we do continue to employ locally engaged staff members as part of the Embassy personnel. The same situation applies in Colombo, Ceylon where we do not have a formal Post in the sense that we show Posts in New York City or in New Delhi, but we do have locally engaged employees on the payroll who service the trade work of the Embassy under the supervision of an officer of the Department of External Affairs.

In addition, those figures include the cost of maintaining officers at Geneva in the component of the Trade and Tariff Delegation. It includes the costs for this fiscal year of an officer who has just been attached to the Permanent Delegation of Canada at the United Nations. Again, not a Trade Commissioner Post in the strict sense of the term, but a Trade and Commerce officer attached to the Delegation.

Mr. Macdonald (Rosedale): Is that Barry Steers?

Mr. Fletcher: No sir, it is a man named Ray Lucas who went in the past two weeks. Barry Steers is on the staff of the Consulate General in New York City.

Your comment is very apt, Mr. Macdonald. Steers used to do the work that Lucas will now do *in situ* the Permanent Delegation at the United Nations. Mr. Ballard, does that indicate the sort of thing that we have in this large sum?

Mr. Ballard: Well it might, but it does not make me particularly happy to learn that there are \$687,000 in salary revisions classified as Miscellaneous when, in fact, almost all of the Posts indicate increases where the number of staff is static.

Let us take a concrete example. Near the top of the page, Santiago has nine positions in each year, but there is an increase of approximately \$5,000, and in each case where the positions remain the same there is an increase in the budget. I would have expected that increases in salary would have been reflected on an individual basis rather than grouped in one item under Miscellaneous, culminating in such a large amount.

Mr. Fletcher: The explanation, sir, is that in fact the data shown against the name of an individual Trade Commission or Post does include salary changes applicable to the Post concerned where we knew of these. The large figure, which I said was over \$600,000, represents subsequent statutory increases which were not allocated across all these Posts by reason of the deadline to get the material into print.

Mr. McLean (Charlotte): May I ask a supplementary, Mr. Chairman? I notice under this Item you have \$761,700, Amounts allotted during 1966-67 from the Finance Contingencies Vote for increases in rates of pay. Now is that \$761,700 carried into the \$1,004,830?

Mr. Fletcher: The figure of \$761,700 is specific to the fiscal year 1966-67 but a comparable figure of \$600,000 is included in the column headed 1967-68 but it is lumped in that \$1,004,830 figure.

Mr. McLean (Charlotte): That is really what makes the big increase?

Mr. Fletcher: That is right, sir. It is the same practice in showing the figure because it was not possible to allocate it across the

board to the individual Posts. There were retroactive salary increases as well.

Mr. More (Regina City): Why was the \$1,-004,830 not split up in the same way as the comparison for 1966-67?

Mr. Fletcher: It was a Treasury Board responsibility, sir, and we followed their instruction to show it as one figure.

Mr. McLean (Charlotte): Then you would really add the \$202,555 to the \$761,700 to compare with the \$1,004,830?

Mr. Fletcher: That is right, sir. They are the same two.

Mr. McLean (Charlotte): There would not be much difference.

Mr. Ballard: Mr. Chairman, can you tell me the number of the Finance Contingency Vote? Is it Vote 15?

The Vice-Chairman: No, number 15 is the Canadian Government Travel Bureau.

Mr. Fletcher: No, it is Finance Vote 15.

Mr. Ballard: That is what I am looking for. I think that explanation drawn out by Mr. McLean has satisfied my question, Mr. Chairman.

The Vice-Chairman: Are there any other questions on Item No. 5? If not, shall Item No. 5 carry? Yes, Mr. More?

Mr. More (Regina City): Mr. Chairman, I notice there is no Commission in Bombay for 1967-68? Has that been discontinued because we have opened a new one in Nairobi?

Mr. Fletcher: Not because of that reason, sir, but we did close down our Post in Bombay and it will not be operated during this current fiscal year. We closed it because we thought it was not of sufficient use that we should leave the financial and personnel resources tied up there. We have redeployed them. We still maintain an office in New Delhi, of course.

Mr. McLean (Charlotte): You have no office now in Rhodesia?

Mr. Fletcher: No, sir. The office in Salisbury was closed out. We do have the local office of Switzerland attending to any Canadian affairs there but there is no Canadian government office in Salisbury.

Mr. McLean (Charlotte): We are not on speaking terms with them.

Mr. Macdonald (Rosedale): In fact there should not be any agreement at all.

Mr. Fletcher: There is an embargo on trade with Rhodesia.

Mr. More (Regina City): I notice also there is an establishment at Dallas. There is a staff of 10 involving a substantial sum.

Mr. Fletcher: That reference relates to the proposal to open a Canadian Consulate in Dallas primarily for trade considerations during this fiscal year. The sum shown provides for the capital cost of opening the post in the first instance and includes to operational costs for 1967-68, which are arbitrarily assumed to be for a maximum of six months during this fiscal year.

Mr. Ballard: Is the opening of an office in Dallas tied in specifically with the operation of the oil industry in Western Canada?

Mr. Fletcher: It could have a relationship to that but our primary purpose in opening it, Mr. Ballard, is because we believe more trade benefits will result from more intensive operational work in that southern part of the United States.

The offices of the Trade Commissioner Service currently covering that territory are so busy that in our judgment they are not able to give the attention Texas and adjacent states need in the interest of Canada's export trade. We are opening a Post to give more intensive operations on trade promotion to sell Canadian goods and services to that area of southern and central U.S.A.

Mr. More (Regina City): Is this more extensive than the operation in San Francisco?

Mr. Fletcher: No, sir. Our operation in San Francisco is the commercial division of the Canadian Consulate General in San Francisco. The proposed operation in Dallas which has been discussed with the Department of External Affairs is that the entire office, which is to be designated a Consulate if all agree, will be the financial, administrative and operational responsibility of the Department of Trade and Commerce.

It will be similar to the offices operated at present by our Department in Cleveland and in Philadelphia and, to the extent that the Department of External Affairs will not have personnel at Dallas in the immediate future, the costs of running the Consular office entirely devolve upon the Department of Trade and Commerce. So, to this degree they are

less than the comparable costs of running our commercial Post which is only a portion of the Consulate General in San Francisco.

Mr. McLean (Charlotte): I notice that in Johannesburg the cost remains about the same so apparently you did not increase the salaries nor expand there. South Africa is the most affluent state in Africa. Is our trade increasing or decreasing there?

Mr. Fletcher: Our trade is holding up very well indeed, sir. The officer in charge at Johannesburg did not request additional staff and it was the judgment of Trade Commissioner Service headquarters that he did not need additional staff. He did not change his office premises in any way because they were changed just the year before. Consequently the costs of operating that particular post in two consecutive years are very much the same. I point out, however, that there will be some allocation of these retroactive salary increases to Johannesburg in 1967-68.

Mr. McLean (Charlotte): How is our trade in South Africa? Is it going ahead?

Mr. Fletcher: I am not able to quote statistics, sir, and I would have to refer to these to answer your question. We have two Posts in South Africa, one in Johannesburg and one in Cape Town. Both are extremely busy and both were very busy during Operation Export 1967 which has just drawn to a conclusion here. There are some access difficulties in the South African market, but we believe that our prospects for trade there remain buoyant and we think our trade will continue at the levels it has achieved, if not increase.

Mr. McLean (Charlotte): I have been associated with certain companies and I have noticed their trade with South Africa has shrunk. Is it because we are just not out on the job there?

Mr. Fletcher: No, sir, I do not think so. One should bear in mind that the policy of the Government of South Africa is to diversify its industrial economy. As the economy diversifies, some of the things they used to import are made locally. Now our task, as the promotion department for Canadian goods and services, is to find those areas of trade where we can improve our position.

The job of our two offices is, in effect, twofold—to look for new areas and recommend initiatives where we can increase our exports, and to try to assist those firms whose

former market prospects are changing by developments resulting from the policies of the Government of South Africa.

Mr. McLean (Charlotte): From my experience, the trade I have been referring to has been declining. I would like to know whether trade generally is going up?

Mr. Fletcher: I have the statistics for the two calendar years 1965 and 1966. The gross Canadian exports to the Republic of South Africa in the calendar year 1965 were \$76.2 million. In the calendar year 1966 they were \$74.4 million which is a diminution of approximately \$1.8 million between the two years.

Mr. McLean (Charlotte): I do not see why our exports should go down because they have the most affluent country down there. They have more money and their money is hard and South Africa generally is very, very prosperous.

Mr. Fletcher: One of the things that affected our export trade in the calendar year 1966 is that there were less favourable economic conditions in South Africa itself and this had a bearing on their purchases from abroad.

Mr. Cameron (Nanaimo-Cowichan-The Islands): What were our imports from South Africa?

Mr. Fletcher: I do not have the import statistics available.

Mr. Macdonald (Rosedale): Mr. Fletcher, is it not a fact that Canadian trade with South Africa is under some political inhibitions because of resolutions of various United Nations bodies? I hope you are going to say, yes.

Mr. Fletcher: I do not feel competent to answer that particular question, Mr. Macdonald.

The Vice-Chairman: Will you repeat your question?

Mr. Macdonald (Rosedale): There are some distinct inhibitions on Canadian trade with South Africa founded upon United Nations resolutions. I hope you are not going to tell me that these are not being observed?

Mr. Dennis Harvey (Assistant Deputy Minister (Commodities and Industries) Department of Trade and Commerce): Mr. Chairman, may I answer this question? My responsibility is in the area of export controls and those are involved. The export controls

applied on shipments to South Africa of all forms of military equipment, of course, are restricting potentials for sales in that market of that type of item and the United Nations resolutions are being observed through the medium of these export controls.

The Vice-Chairman: Thank you, Mr. Harvey.

Mr. More (Regina City): Mr. Chairman, may I ask the gentlemen whether these restrictions applied the previous year?

Mr. Harvey: My recollection is not clear on the date upon which the UN resolution was passed I believe they were in effect in the previous year. I do not think that the effect of the United Nations' resolution would be an important influence in any change in the trend of those figures. Without an examination of the situation I am not absolutely positive that the control was in effect throughout the entire year, but I believe that is the case. I can verify that if you wish.

Mr. Ballard: Mr. Chairman, may I ask this question: It is well known that Rhodesia is importing from, or trading on a very extensive basis with, Malawi and South Africa. Is there any suspicion in the minds of the officials of the department that South Africa is being used as a point of trans-shipment of goods from Canada to Rhodesia?

Mr. Harvey: Mr. Chairman, the answer is No; and judging from the trend in the South African trade figures in the last year one would not suspect that that was the case. Of course, it is a possibility, but the trend of the trade figures is the reverse of what it would be if there was an important diversion of trade.

Mr. McLean (Charlotte): Have we any restriction on trade with Nigeria or the Congo?

Mr. Harvey: We have, if, by "restrictions" one means export control, which we have, in effect on a number of goods for all destinations. These would include military equipment.

Mr. McLean (Charlotte): To Nigeria?

Mr. Harvey: They would be applicable to all destinations, excluding the United States, on military items. The administrative decisions about any application for a permit are made when the need arises. I would not care to attempt to define what the attitude of the government might be on these items, but I

would say that a great deal of caution is exercised in administering controls on arms, ammunition and implements of war generally to all destinations.

Mr. McLean (Charlotte): Does Parliament give the government authority to say, "You can ship military equipment today, but you cannot ship it tomorrow"?

Mr. Harvey: Under the Export and Import Permits Act the Minister of Trade and Commerce is responsible for the administration of controls on goods which are on the export control list and on all goods to countries which are on the area control list, such as the Communist bloc and the Sino-Soviet bloc. These are all included in the area control list.

Mr. McLean (Charlotte): Are you speaking just of communist countries now?

Mr. Harvey: No; I was describing the pattern of the control. The control covers items which are under export control for reasons of Canadian security; items which are under export control because of supply conditions in Canada, to protect Canadian supply; and items which are under export control as a result of intergovernmental agreements or commitments. That is the authority for control.

The system takes the form of two lists. One is the list of goods which are under export control to all destinations, or to all destinations excluding the United States, and the other is a list of countries to which all shipments are controlled.

In the list of those to which all shipments are controlled there is included the entire Sino-Soviet bloc. In the list of goods which are under export control to all destinations, either excluding or including the United States, there would be included military equipment, strategic materials, arms and ammunition and things which go to make arms and ammunition. Obviously, this would be so, for example, to all African destinations, all Asian destinations and in fact, to all European destinations.

The decisions which would be made about any particular enquiry for export would depend upon the kind of goods, the consignee and the country of destination.

Mr. McLean (Charlotte): We know that Nigeria is almost engaged in a civil war. Before this took place we would be exporting almost anything there. When civil war takes

place you say that many of these materials are immediately put on the list of things that you cannot export?

Mr. Harvey: The internal political conditions in any country would certainly affect the government's decision on whether or not a permit governing military equipment is issued.

In the case of countries such as Nigeria or the Congo making application for a permit there would be very careful examination of the possible use.

In his administration of control on military equipment the Minister of Trade and Commerce carefully takes into account the recommendations of the Department of External Affairs.

Mr. McLean (Charlotte): Suppose a company is doing business with Nigeria and civil war breaks out. Would it be sent immediately a list of things that it could not export to Nigeria?

Mr. Harvey: It works in the reverse way, sir. The application for an export permit is made by a company which is developing business. They know that an export permit is required. When they ask for one I am advised whether or not the permit can be issued. However, in normal circumstances, on all items which involve the department's issuing permits we are well aware of who the exporters are, and they, over a period of time, become quite familiar with Canadian government policy.

Mr. Ballard: Is the decision to export to a country such as Nigeria, which is involved in, or on the verge of, civil strife, made on moral grounds or are financial considerations involved?

Mr. Harvey: That is a rather difficult question for me to answer, Mr. Chairman. It is a decision which, of course, is taken by the government, but perhaps I could be helpful and say that the administration of export control on military equipment very clearly involves considerations of policy; and in areas where there is any civil disturbance, revolution, or upset of this kind, issues of policy would certainly take precedence over questions of profit.

That may be an inadequate answer, but it is about as close as I can come to forming one.

Mr. McLean (Charlotte): Who decides what is and what is not military equipment? For example, there are jeeps and trucks, and so on.

Mr. Harvey: Legally, the situation is that an item is on or off the control list as a matter of fact and of law and of interpretation by the courts. As a rule there is very little doubt in the minds of the exporters on whether or not an item is of military concern if there are a few items which are in the area of both military and civilian interest. The principal preoccupation of the control is with those items which are researched, designed and developed for military applications, whether they be in the form of vehicles or guns or aircraft.

There are, of course, items such as transport equipment, which in many instances might have a civilian or military application. In those circumstances an important consideration is the identity of the consignee. If it is the department of defence of a country it is generally likely to be considered as a military end item. If it is a civilian consignee it obviously is not likely to be of military significance.

The amount of equipment ordered does, of course, affect how it is treated. If it is an item which is in demand for military purposes it is likely to be on the export control list, but in certain instances the permit may be issued because it is for civilian application.

Mr. McLean (Charlotte): Would food to feed an army be considered military equipment in any circumstances?

Mr. Harvey: No, sir, not humanitarian goods. Food, pharmaceuticals, and, normally, clothing and textiles and this kind of thing are not on the export control list.

The Vice-Chairman: Do you have the answer to the question by Mr. Cameron?

Mr. Fletcher: Yes. Mr. Cameron asked about the statistics of Canadian imports from the Republic of South Africa. In the calendar year 1965, these totalled \$27.1 million (Canadian). In the calendar year 1966, they totalled \$27.6 million (Canadian).

Mr. McLean (Charlotte): What are our general imports from South Africa?

The Vice-Chairman: Just a moment Mr. McLean. Did you have a supplementary on that, Mr. Cameron?

Mr. Cameron (Nanaimo-Cowichan-The Islands): Not on that particular issue, no. I have another question I want to ask later.

The Vice-Chairman: Yes, Dr. McLean.

Mr. Fletcher: Speaking, in terms of the calendar year 1966, sir, as a generalization the variety of imports from South Africa covers approximately two pages of the Dominion Bureau of Statistic's books.

Mr. McLean (Charlotte): Small items.

Mr. Fletcher: I beg your pardon.

Mr. McLean (Charlotte): Small items.

Mr. Fletcher: I was going to instance items of a value greater than \$1 million, if you wish. On that basis there were imported into Canada in 1966 fresh grapes, oranges, mandarins, tangerines and that ilk of citrus fruit and canned tomatoes to a value of over \$7 million, unmanufactured asbestos, \$1.1 million, ferrochrome ore, \$1.2 million; and ferro-manganese itself, \$6.2 million. Those are the only items individually of a value greater than \$1 million imported into Canada.

Mr. McLean (Charlotte): They do not really compete with our industries here.

Mr. Macdonald (Rosedale): I have a question for Mr. Marks. What are the principal exports making up the \$74.4 million?

Mr. Marks: May we refer that?

Mr. Macdonald (Rosedale): Certainly.

• (12 noon)

Mr. Fletcher: Sir, again taking the calendar year 1966, and, arbitrarily, items worth more than \$1 million, we shipped malt to the value of \$6.9 million.

Mr. Macdonald ((Rosedale): A warm climate!

Mr. Fletcher: We shipped sulphur to the value of \$3.4 million; a variety of forms of lumber, by individual species, Douglas fir and hemlock were the ones of greatest value; newsprint paper \$2.8 million; fine papers, writing papers and reproduction papers, specifically, \$1.2 million; plastic film and sheet of various kinds just over \$1 million; aluminium pigs and ingots, shot and slabs \$15 million; aluminium bars, rods, plates and sheet \$1.5 million; passenger automobiles and chassis \$17 million; motor vehicle parts and accessories \$4.5 million. That appears to be the list of those that are of more than \$1 million and it covers five pages in the Dominion Bureau of Statistics' book.

Mr. Macdonald (Rosedale): Thank you.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Do you have any figures on the export of military equipment to the United States?

Mr. Fletcher: I do not have them at my finger-tips, sir. I would prefer that we get those for you, if you want to have them.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I would like to have them.

Mr. Fletcher: This is primarily the responsibility of the Department of Defence Production, but we could obtain those figures, if you wish.

The Vice-Chairman: May I interrupt, Mr. Cameron? Would you allow a supplementary question? Possibly Mr. Fletcher can also provide figures on the number of jobs created in Canada by those sales.

Mr. Fletcher: If you are referring to employment in Canada indicated by Canadian exports of defence equipment to the United States, we can endeavour to get an estimate of that.

Mr. Cameron (Nanaimo-Cowichan-The Islands): We might be able to employ more in the dope traffic, too, if we went into it in British Columbia.

Mr. McLean (Charlotte): It looks to me as if there is room there for quite an expansion in trade with South Africa.

The Vice-Chairman: The balance is very favourable to Canada. It is nearly three to one.

Mr. McLean (Charlotte): I know it is. They have plenty of money down there.

The Vice-Chairman: I think, doctor, you are thinking about gold.

Mr. More (Regina City): This question might be more applicable to the Department of External Affairs, but I do not see any evidence of a great expansion in our offices in South America. I have had a number of complaints and reports from Canadian citizens who have gone to South America about Canadian offices and Canadian activity there. I am continually hearing from people who visit South America as well as from some people who are working in banking circles there, with whom I correspond that we are missing the boat down there. They are quite

critical of Canadian offices and operations. As I said, this question might be more applicable to the Department of External Affairs, but I am not sure. Certainly there is no evidence of any great increase in our Trade Post activities. Could you give us your views on this lack of expansion in South America?

Mr. Schwarzmann: Were you speaking specifically of the Trade Commissioner Office or the Trade Posts?

Mr. More (Regina City): I have received general complaints. I am not prepared to assess them at this time, but in looking through the figures here I do not see any great significance to them as far as the expansion of our operations in South America is concerned.

Mr. Schwarzmann: Mr. Fletcher will answer this question.

Mr. Fletcher: At the moment, sir, speaking in terms of South America only, we have offices in Argentina at Buenos Aires, two offices in Brazil, one in Rio de Janeiro and one in Sao Paulo, an office in Chile at Santiago, an office in Bogota, Colombia, an office in Lima, Peru an office in Caracas, Venezuela and an office in Montevideo, Uruguay. We believe that those posts represent the primary commercial centres in South America. You will notice that in South American countries where we do not have resident officers, our staffs are accredited to the countries concerned, and in the case of Ecuador we have an honorary commercial agent appointed in the City of Guayaquil which is the main commercial centre of that country.

In so far as our trade promotion and our export performance in South America is concerned, we believe that this is increasing steadily, but it is beset with a great many difficulties, some of which stem from the economic state of the countries concerned, and there are access problems as well. Some of them stem from the consequences to the supply of finished goods from the industrial development programs of the countries in South America. We are very interested to note from the statistics of the Operation Export 1967 that our South American posts were amongst the offices which received the most attention from Canadian exporters whether they were potential exporters or practising exporters.

In the autumn of this year, as an indication of our effort to improve trade from Canada to South America, we are organizing and will be

holding the largest single trade fair's exhibit that Canada has ever put on in South America. This will be held at Lima, the so-called Pacific International Trade Fair. We will have 48 individual Canadian firms or associations participating in and endeavouring through this Trade Fair which attracts businessmen from all over the continent to improve their penetration not only into the territory of Peru, itself, but also into other countries of South America.

Our Trade Missions program is bringing selected businessmen and senior government officials, influential in the purchase of goods and equipment, to Canada this year to show them what we have to offer.

In our agricultural activities, for example, we have achieved very gratifying results in the supply of purebred livestock to South American countries, particularly in the Holstein-Friesian breed.

I have mentioned these just as examples, Mr. More. South America is a market which is difficult for Canada to penetrate because of access problems, but our trade has been increasing over the years and our confidence that it will increase further is reflected by the individual trade promotional projects that we are mounting this very calendar year.

Mr. Macdonald (Rosedale): Mr. Fletcher, when you say "access problems", what do you have in mind—balance of payments?

• (12.10 p.m.)

Mr. Fletcher: Balance of payments problems which are reflected in import quotas or the need for import licenses. In addition, some of the access problems result from the fact that a national firm in a given South American country, begins to produce for the domestic market its requirements of something that was previously imported. In many South American countries when that occurs, further imports from outside are then subject to import permit and often are restricted to the point where the previous trade from outside the country is eliminated.

Mr. Macdonald (Rosedale): When you say "national" firm do you mean a state-owned enterprise?

Mr. Fletcher: No, I do not mean state-owned. I just mean a firm of the country concerned. It could be a joint venture.

Mr. More (Regina City): In other words, they have restrictions on certain classifications of goods which are manufactured in their own countries.

Mr. Fletcher: I beg your pardon, Mr. More, I did not hear you.

Mr. More (Regina City): They have restrictions on goods manufactured in their own countries and our competitive goods cannot enter. Is that right?

Mr. Fletcher: That is it in a nutshell.

Mr. More (Regina City): Have you ever had any evidence that our lack of membership in the OAS is responsible for some of the limited access difficulties?

Mr. Fletcher: I know of no such evidence, Mr. More.

Mr. More (Regina City): I want to ask one other question, Mr. Chairman, if I may.

In reviewing Trade Commissioner Service—New Trade Posts, the Minister mentioned a couple of new posts. However, I noticed a name in the list in which I am interested—Islamabad—which has a staff of nine.

Mr. Fletcher: Yes, sir; Islamabad is the name of the new capital of Pakistan which is being created and which is about three hours flying time, 1,000 miles north of Karachi. The Department of External Affairs has an embassy in Islamabad because the departments of the Pakistan government which used to be in Karachi have now been transferred to Islamabad. These are the departments which are concerned with trade, and the foreign aid program between Canada and Pakistan. Our department decided that we should have people in Islamabad, too, and so we have. We are reducing the staff at our Karachi post this year by taking out one of our officers and posting him to Islamabad. Karachi used to be a two officer post. It is a matter of reorganizing our strength in Pakistan as a consequence of the shift of the capital city and the government departments with which we must work.

Mr. More (Regina City): I notice a reduction in the Estimates of approximately \$20,000 for Karachi but the man-hours are the same and the man-hours you have set up for Islamabad are the same as the man-hours in Karachi.

Mr. Fletcher: That is right, sir. When these data were compiled we had not taken that position from Karachi's establishment.

The Vice-Chairman: Excuse me, Mr. Ballard. Do you have a supplementary question because Mr. Gilbert is next.

Mr. Ballard: I would like to ask a supplementary question to clarify a point. You are saying, in effect, then, that the department is going to phase out their establishment at Karachi?

Mr. Fletcher: I did not say that, in so many words, Mr. Ballard. We are reducing our strength in Karachi. We have under study at all times the value of continuing posts where they already are in countries around the world and we are examining our post at Karachi right now to determine whether it is worth maintaining. The parallel example is the phasing out, a few months ago, of our post in Bombay which was our second post in India. We are examining the value of maintaining our post in Karachi, but we have not yet taken a decision. However, we are reducing the Trade Commissioner Officer staff at Karachi.

Mr. Gilbert: Mr. Chairman, would Mr. Fletcher direct his attention to the estimates for the Hong Kong office? I note an increase of roughly \$54,000 for that office. Does that office service the People's Republic of China?

Mr. Fletcher: Yes, it does, sir.

Mr. Gilbert: That is the one?

Mr. Fletcher: Yes.

Mr. Gilbert: That is the only one we have?

Mr. Fletcher: Yes; there is no office of the Canadian government in the People's Republic of China.

Mr. Gilbert: Do you have the trade figures for 1965 and 1966 with regard to business with the People's Republic of China?

Mr. Fletcher: Export and import?

Mr. Gilbert: Yes.

Mr. Fletcher: May I take a minute to look them up? The exports from Canada for the calendar year 1965 totalled \$105 million of which wheat represented more than \$104 million. I am rounding these figures. In the calendar year 1966 Canadian exports to the People's Republic of China amounted to \$184.9 million of which wheat accounted for about \$183 million. I will now turn to the import figures. Canadian imports from the People's Republic of China in the calendar year 1965 totalled \$14.4 million and, in the calendar year 1966, \$20.6 million.

Mr. Gilbert: Thank you very much.

Mr. More (Regina City): I have a supplementary. Are these all manufactured goods?

Mr. Fletcher: The imports? No, sir, they are not all manufactured goods.

Mr. Gilbert: Mr. Fletcher, have recent events in Hong Kong had any effect with regard to our trade office in that city?

Mr. Fletcher: No sir. The office is fine, intact and operative.

Mr. Gilbert: I wonder whether you would direct your mind to the Kingston office. Does that Kingston office service only Caribbean countries?

Mr. Fletcher: No, not all of them. The territory of the Kingston office comprises Jamaica, of course, and in addition the Bahamas and British Honduras.

Mr. Gilbert: Have you any offices covering the other Caribbean countries?

Mr. Fletcher: Oh, yes sir. We have an office in Port of Spain, Trinidad whose territory includes Trinidad and Tobago—which is the place where it is located—and in addition, the Barbados, Leeward and Windward Islands, Guiana, French Guiana, Surinam, Guadeloupe and Martinique.

Mr. Gilbert: Fine.

Mr. Fletcher: If your comment relates to more than just the British Caribbean, we have offices in the Dominican Republic as well.

Mr. Gilbert: How do the trade figures compare for 1965 and 1966?

Mr. Fletcher: From what part sir?

Mr. Gilbert: From the Caribbean.

Mr. Fletcher: I would have to aggregate them. Can I select Jamaica and Trinidad?

Mr. Gilbert: Could you do that?

Mr. Fletcher: Imports from Jamaica in 1965 amounted to \$35,999,939 and in 1966, \$37,280,874. Imports from Trinidad and Tobago in 1965 were \$16,669,921 and in 1966, \$16,050,191. Exports to Jamaica in 1965 were \$30,279,811 and in 1966 they were \$33,500,452. Exports to Trinidad and Tobago in 1965 were \$21,532,135 and in 1966 they amounted to \$23,336,621.

The Vice-Chairman: Do you have any further questions, Mr. Gilbert?

Mr. Gilbert: No, that is all.

Mr. Ballard: Mr. Chairman, I wonder whether we could have an explanation of the first item on page 496. The detail is, Head Office, \$1,655,900. I notice that the man-year positions have increased by over 50 per cent and the dollar expenditure has also increased by over 50 per cent. Could Mr. Fletcher or the Deputy Minister give us some explanation of the need for the increase in personnel and dollar expenditure?

Mr. Schwarzmann: I will ask Mr. Marks to comment on this.

• (12:20 p.m.)

Mr. L. L. Marks (Chief, Financial Services Division, Department of Trade and Commerce): The increase in this staff represents new foreign service officer trainees coming into the Department. They are charged against what we call the Head Office establishment prior to being assigned to a specific post. It includes also additional strength required to maintain administrative services from Ottawa to the field.

Mr. Fletcher: Specifically, there were 33 junior officers in the recruit class to which these figures relate in part. Another 30 are in the process of reporting now. Therefore, over the 12-month period, one could say that an average of 31 officers are funded in that figure shown for Head Office additional to what there was before.

Mr. More (Regina City): Was not the same situation—

Mr. Fletcher: No, sir. Starting last year, we had the largest single recruiting drive in the history of the Trade Commissioner Service. Prior to that, a large class numbered 12 or 14 recruits.

Mr. Ballard: Actually, this averages out to slightly over \$20,000 per person. Does this mean—

Mr. Fletcher: We did not imply, sir, that this is the only explanation for the incremental cost. The junior recruits come in at something around \$7,000 so that \$200,000 of this increment is represented right there in additional salaries.

Mr. Ballard: Then give us a rough idea of what the other \$460,000 increase in cost is.

Mr. Fletcher: Just to be quite clear Mr. Ballard and Mr. More, do you want an explanation of the \$600,000 difference?

Mr. Ballard: Yes. You said that \$200,000 would be applicable to the new trainees.

Mr. Fletcher: Another item in the current fiscal year that we charged to Head Office operation is the cost of Operation Export 1967 which was approximately \$270,000.

Mr. Ballard: When you say the cost of Operation Export, do you mean the over-all cost including advertising and trade delegations?

Mr. Fletcher: No, sir, not advertising, but bringing the personnel to Canada; moving them through Canada; organizing the administrative side of Operation Export 1967, exclusive of publicity. The publicity side was funded in the Trade Publicity Branch estimates of the Department.

Mr. Ballard: Mr. Chairman, I am disappointed that this item was not set up as a separate vote or a separate category, because I think it would stand out better in the estimates and would be self explanatory. When we examine the estimates for next year I hope there will be a reduction in the amount charged to Head Office if there is not a continuation of Operation Export 1967 by such a program as Operation Export 1968. If it had been shown as a separate item it could have been clearly earmarked.

Mr. Marks: Mr. Ballard, as you probably know, the format of presentation is subject to direction from the Treasury Board. We have included these items as presented, but if you wish we will take under advisement the matter of having this item shown separately.

Mr. Ballard: I think it could have been shown more satisfactorily as a separate item.

The Vice-Chairman: Mr. McLean, you are next.

Mr. McLean (Charlotte): Is the only office in Central America located in Guatemala?

Mr. Fletcher: Yes, the only resident office. If I may remind you, I did mention that our office in Kingston, Jamaica goes over to British Honduras, but in Guatemala City, we have the only office of the Trade Commissioner Service in Central America.

Mr. McLean (Charlotte): Does that cover Honduras and Panama? I have always found that it is much easier to do business in Central America than in South America. You seem to concentrate on South America, with only one office in Central America.

Mr. Fletcher: The office in Guatemala has as its territory Guatemala itself, Costa Rica, El Salvador, Honduras, Nicaragua, Panama and the Canal Zone.

Mr. McLean (Charlotte): I have always found those Central American republics easy to do business with, because of United States influence, but South America is a different proposition.

Mr. Fletcher: From time to time we have examined the value that we would place on opening another office in that area but always, while we found it would be nice to have another office in that area, there was a prior claim on the resources that would be involved and we put them somewhere else around the world.

Mr. McLean (Charlotte): I understand they are forming a common market in Central America so I think it would be a quite important market.

The Vice-Chairman: Are there any further questions on Item No. 5? Mr. Latulippe.

(Translation)

Mr. Latulippe: Could we have some explanation of the miscellaneous item in the amount of \$1,400,830? There has been a great increase in that item. Could you give us some further information on it?

The Vice-Chairman: What Item, Mr. Latulippe?

Mr. Latulippe: It reads: "Unallocated and Miscellaneous."

The Vice-Chairman: On what page, please?

Mr. Latulippe: Page 497.

(English)

Mr. Fletcher: Mr. Chairman, it is my impression that the question asked by the hon. member relates to this \$1,004,830 which was questioned by Mr. Ballard and Dr. McLean earlier.

(Translation)

The Vice-Chairman: Mr. Latulippe, that item was questioned previously by Mr. Ballard and clarified for the Committee. Do you wish to have the answers repeated?

Mr. Latulippe: No; I will see them in the proceedings.

The Vice-Chairman: Yes; the answers were given on a question asked by Mr. Ballard.

Mr. Latulippe: I will see all the information in the proceedings.

(English)

Mr. Fletcher: I am quite prepared to answer again.

The Vice-Chairman: I am asking Mr. Latulippe whether he wants you to repeat the answer. He told me that he will be quite satisfied to read it in the Evidence.

Shall Item No. 5 carry? Yes, Mr. More?

Mr. More (Regina City): I have one further question. Mr. Fletcher, there has been a reduction in man-years at Guatemala and an increase at Kingston, yet the estimates show a \$12,000 increase in each instance. How do you account for this?

Mr. Fletcher: At Guatemala City, an increase of \$12,000 related to the increase in Kingston of \$12,000.

Mr. More (Regina City): Right.

Mr. Fletcher: And what is your observation?

Mr. More (Regina City): Nine man-years for Guatemala against 11, and 11 for Kingston against 9.

Mr. Fletcher: Well, these figures relate to local costs of salaries and wages and local rental costs. The entire cost of the post is indicated here save for those retroactive salary adjustments.

In the case of Kingston, Jamaica, we have just moved into new premises. The High Commission there has transferred and we are paying a much higher rent, for one thing.

The Vice-Chairman: Does Item No. 5 carry? Item No. 5 agreed to.

The Vice-Chairman: Gentlemen, we will now move to Item No. 10, Canadian Government Exhibition Commission, details of which are on page 498.

Department of Trade and Commerce

10. Canadian Government Exhibition Commission. \$5,258,000

• (12.30 p.m.)

Mr. Schwarzmann: Mr. Chairman, I will ask Mr. Patrick Reid, Director of the Canadian Government Exhibition Commis-

sion to come forward to deal with any points under these estimates.

The Vice-Chairman: Are there any questions, gentlemen, on this item?

Shall Vote 10 carry?

Mr. Cameron (Nanaimo-Cowichan-The Islands): Could you give us any idea as to approximately how many exhibitions—

Mr. Patrick Reid (Director of the Canadian Government Exhibition Commission): On an overall basis, sir?

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes. Major items.

Mr. Reid: As far as trade fairs are concerned for the 1967 fiscal year, there are sixty-four projects contemplated which is an addition of five from the previous fiscal year. Approximately eighteen of those are in the United States of America. Eleven of them are in Britain, six are in France, seven are in Germany and the remainder are scattered elsewhere throughout the world.

Mr. Cameron: Is there one in Brno?

Mr. Reid: Yes, sir, there is one in Brno, Czechoslovakia.

Mr. Ballard: I was wondering if this vote includes the trade expositions held in Canada in various places last year?

Mr. Reid: No sir. The funds provided for Canadian government participation in exhibitions in Canada are provided by the departments concerned and not out of the central vote of the Exhibition Commission which deals in that regard with projects of the Canadian Government abroad.

Mr. Ballard: Maybe I have used the wrong term but I am referring to the expositions mentioned by the Minister in his statement which were held at, I think, Vancouver, Edmonton, Regina and Winnipeg.

Mr. Fletcher: I think, sir, you may be thinking of Operation Export 1967 where Mr. Winters said that a group of over sixty trade commissioners visited each of these eight centres—

Mr. Ballard: That is what I am referring to.

Mr. Fletcher: That is not an exhibit in the sense that Mr. Patrick Reid deals with in his capacity as Director of the Canadian Government Exhibition Commission.

Mr. Ballard: All right; I will pass.

The Vice-Chairman: Are there any questions on Vote 10, gentlemen, or shall Vote 10 carry?

(Translation)

Mr. Latulippe: May I have an explanation of item 19, tax on buildings?

The Vice-Chairman: What item, Mr. Latulippe?

Mr. Latulippe: Item 19, tax on buildings; it is item 10 on page 499.

The Vice-Chairman: Do you mean the amount of \$8,500?

Mr. Latulippe: Yes, it is in the amount of \$8,500, for building taxes.

(English)

The Vice-Chairman: Vote 10 on page 499—Building Taxes—\$8,500.

Mr. Reid: We have a warehouse and production facility in London, England, and those are the taxes applied against that building.

Mr. Latulippe: So it is taxes but it is not income tax.

Mr. Reid: No, not income tax.

The Vice-Chairman: Shall Vote 10 carry?

Some hon. Members: Agreed.

The Vice-Chairman: We will now proceed to Vote 15.

Department of Trade and Commerce

Canadian Government Travel Bureau
—To assist in promoting the Tourist Business in Canada including a grant of \$55,000 to the Canadian Tourist Association, \$9,991,000.

Mr. Ballard: I would like to know the extent of the advertising done by the department other than through the Canadian Tourist Association to promote the Pan-American Games. Is this figure available?

Mr. Fletcher: To my knowledge Mr. Ballard, the Department of Trade and Commerce has done no advertising to promote the Pan-American Games other than that done by the Canadian Government Travel Bureau.

The Vice-Chairman: If I remember correctly I think the question was asked of the

Minister when he was before us on Tuesday and the Provincial Government is doing some advertising on the Pan-American Games.

Mr. Fletcher: I must have misunderstood Mr. Ballard's question. I thought you asked the Department of Trade and Commerce.

Mr. Ballard: That is right.

Mr. Fletcher: The question that was asked of Mr. Winters as I understood it was what financial support has the Federal Government given to the Pan-American Games and Mr. Winters observed that cash grants came from the Department of National Health and Welfare and not from the Department of Trade and Commerce but that the Canadian Government Travel Bureau did assist through its advertising.

Mr. More (Regina City): May I ask Mr. Fletcher a supplementary question? In the case of EXPO there has been a whole program of co-operation between the department and EXPO, as I understand it.

Mr. Fletcher: Yes, Mr. More.

Mr. More (Regina City): Is the Pan-American Games not a similar venture in a different field, and why is there not the same extensive co-operation? What is the reason? Why not promote this for tourism?

Mr. Fletcher: There is very extensive co-operation. With respect, sir, what I said was that the department had not made any cash grants to the Pan-American Games administration. There has been the most extensive co-operation and intensive co-operation. Mr. Guy Moore of the Province of Manitoba Tourism Bureau and his staff have been in continuing contact with the Canadian Government Travel Bureau and its staff, both to decide on where the Travel Bureau's advertising could be done to best effect and in the interests of the Pan-American Games and also to collaborate on joint programs, such as was carried out, I think I mentioned, in Dayton's Department Store in Minneapolis where the Provincial Government of Manitoba and the Federal Travel Bureau and many other agencies of federal and provincial nature collaborated on one promotion that had as one of its aims the publicity for the Pan-American Games.

In addition, the Province of Manitoba has seen to it that our Travel Bureau offices in Minneapolis and Chicago and Indianapolis in particular are fully supplied with material

descriptive of the Pan-American Games and our offices in those cities have given every assistance and facility to representatives of the Pan-American Games organization when they have made visits to those parts of the United States. There has been very much co-operation, sir, I can assure you.

Mr. Ballard: Would you say whether or not your department has received any request from the officials of the Pan-American Games for financial assistance towards advertising and what was your Department's reaction to such a request if one was made?

• (12.40 p.m.)

Mr. Fletcher: To my knowledge I am not aware of any specific requests made by the Pan-American Games Administration or by the Province of Manitoba for financial assistance or specific advertising assistance from the Canadian Government Travel Bureau. Mr. Dan Wallace, Director of the Bureau, may have had some such approach but I am not aware of it, Mr. Ballard. I do not believe that we have been shy. In fact, we have taken the initiative to seek out ways in which we can collaborate with the Pan-American Games people within the Travel Bureau's advertising program in the United States and elsewhere where deemed appropriate.

Mr. More (Regina City): I would like to thank you for your information, Mr. Fletcher. It is interesting to note that in the Minister's remarks he indicates co-operation with EXPO several times in his statement on Tourist Promotion but not once does he mention the Pan-American Games.

Mr. J. C. Cantin (Parliamentary Secretary to the Minister of Trade and Commerce): The Minister did mention that but not in his statement. The last time the Minister was here he made a full statement about the Pan-American Games.

The Vice-Chairman: Shall Vote 15 carry?

Some hon. Members: Agreed.

The Vice-Chairman: We will now proceed to item 20.

*Department of Trade and Commerce
Standards Branch*

20 Administration and Operation \$4,-
323,200

Are there any questions on that item gentlemen?

Shall item 20 carry?

Mr. Ballard: Actually the total vote—there is an increase of about \$7 million...

The Vice-Chairman: No, there is an increase of \$151,400—Item 20, Page 492, details, page 500. There is an increase in expenditures of \$151,400 from 1966 to 1967.

Mr. Ballard: I am sorry, I am a little ahead of you.

The Vice-Chairman: Shall Item 20 carry?

Some hon. Members: Carried.

The Vice-Chairman: We will now move to Item 29, Canadian Government Participation in the 1967 World Exhibition, details on page 501. There is a decrease of \$1,921,200

*Department of Trade and Commerce
1967 World Exhibition*

29. Canadian Government Participation in the 1967 World Exhibition, Montreal
\$6,750,800

What is the estimate of the deficit for EXPO 1967?

Mr. Schwarzmatt: Mr. Chairman, this item does not cover EXPO itself. It covers only Canadian Government participation.

The Vice-Chairman: I am sorry.

If I remember correctly I understand that we may have some officials of the EXPO Corporation before us.

Is this correct, Mr. Cantin?

Mr. Cantin: I am not aware of that.

The Vice-Chairman: No? But I understand the EXPO Corporation comes under the Trade and Commerce Department.

Mr. Cantin: Yes.

Mr. Ballard: Mr. Chairman, in view of the possibility of our having an official from Expo—

The Vice-Chairman: I am not sure at this time.

Mr. Ballard: I think we should be sure. I think we should have an official from Expo here and in view of that it is my opinion that Vote 29 should be stood.

The Vice-Chairman: Why? I understand it is two different items.

Mr. Ballard: As I understand Vote 29 this is the Dominion Government's share of the cost of EXPO 67.

The Vice-Chairman: No, no. If it were the whole of the Government's share we would be very pleased.

Mr. Ballard: Oh, our own pavilion.

The Vice-Chairman: If that were our share we would be very happy.

Mr. More (Regina City): We are happy anyway, I think. No, this is only our own pavilion.

Mr. McLean (Charlotte): May I ask if it is 1967 and 1968—do operating expenses extend into 1968? \$571,150 in 1966-67 and in 1968 it is \$1,706,800.

Mr. Marks: Mr. Chairman, the exhibition will be over at the end of October. Although I think cost may run into the early part of 1968 for winding up the Canadian exhibit, there will be no substantial cost in 1968; it will just be until March 31, 1968.

Mr. McLean (Charlotte): But most of the large increase would be in 1967.

Mr. Marks: That is right, sir.

The Vice-Chairman: Yes, Mr. Cameron?

Mr. Cameron (Nanaimo-Cowichan-The Islands): I would like to get more information here because, like Mr. Ballard, I read literally the name given to this item which is "Canadian Government Participation". Now I presume it means the Canadian Government's own exhibit.

Mr. Marks: Yes.

Mr. Cameron (Nanaimo-Cowichan-The Islands): That is what is covered?

Mr. Marks: That is right.

Mr. Cameron (Nanaimo-Cowichan-The Islands): It does not cover even the Expo Corporation Exhibits?

Mr. Marks: No, sir.

The Vice-Chairman: Do you gentlemen have any further questions on Item 29? Shall Item 29 carry?
Item agreed to.

Department of Trade and Commerce

32 Grant to the Pacific National Exhibition, Vancouver, towards the cost and constructing a trade fair and sports building at Exhibition Park, Vancouver,

the Government of Canada's share not to exceed \$2,000,000, \$800,000.

Mr. Cameron (Nanaimo-Cowichan-The Islands): It seems to have dropped by—

The Vice-Chairman: \$400,000, Mr. Cameron. Any questions on Item 32?

Mr. More (Regina City): Will this in effect be the total, or will there be further demands in connection with this building in Item 32?

Mr. Marks: As far as I understand, sir, this is the maximum grant to be given. I am not aware of any information that would—

Mr. More (Regina City): In other words, on a cost basis it is a grant.

Mr. Marks: It is a grant, sir.

Mr. More (Regina City): Pure and simple. And this is the balance of the grant.

Mr. Marks: That is right.

The Vice-Chairman: Shall Item 32 carry? Item agreed to.

Mr. Ballard: Mr. Chairman, are we not going to get an explanation, for example, of the payment on carrying wheat reserves?

The Vice-Chairman: That is a right by statute.

Mr. Ballard: That is not subject to—

Mr. More (Regina City): No, that is a statutory vote.

The Vice-Chairman: I understand that we have Mr. Walter E. Duffett from the Bureau?

Mr. Schwarzmann: Yes, Mr. Duffett, the Dominion Statistician, is here with his officials, and I think he would be happy to provide any comments in discussion with us.

The Vice-Chairman: Gentlemen, have you any other questions on Item 1 before we go on to the Bureau? Shall Item 1 carry? Perhaps these gentlemen from the Bureau could answer your questions.

Mr. Gilbert: I wonder if I could make a suggestion here. The same suggestion was made in the Committee on Housing, Urban Development and Public Works this morning: that is, that we have the annual statement of the Department of Trade and Commerce filed. This annual statement gives forth the policy and projected programs, and would enable us to ask questions on the annual statement. It

seems to me that we probably only have the annual statement for 1965-66, or maybe just the one for 1965.

Mr. Schwarzmann: That the annual report of the Department would be available?

Mr. Gilbert: Yes.

Mr. Schwarzmann: Yes; Mr. Fletcher.

Mr. Fletcher: In print, at the moment, only the annual report for the calendar year 1965 is available; we distributed that to members of this Committee last year.

The annual report for 1966 is in one of its versions at the moment—it is at the second draft—and was not available for tabling before members of the Committee, Mr. Chairman. It was not yet been deemed to be in final shape.

Mr. Gilbert: Once it is done, can it be put before us?

Mr. Fletcher: It will be tabled in the House of Commons and distributed to every member, sir.

Mr. Gilbert: Yes, but it should also be brought before this Committee for the purpose of questions on policy.

The Vice-Chairman: I think it may be the policy of the government, or the Committee may request it. You said, Mr. Gilbert, that the same request was made this morning?

Mr. Gilbert: At Public Works this morning. They were in the same position; all they had was the 1965 report. It might be wise to have a look at that 1965 report.

Mr. Fletcher: Well, we can certainly provide copies of the 1965 report very quickly, Mr. Chairman, and make them available to Miss Ballantine.

The Vice-Chairman: Would that be all right, Mr. Gilbert?

Mr. Gilbert: Yes, that would be fine.

The Vice-Chairman: Coming back to Item 1, do you have any further comments? Shall Item 1 carry?

Item agreed to.

Thank you very much for the help your Department has given to this Committee.

Mr. Schwarzmann: Thank you very much, sir.

Dominion Bureau of Statistics

1. Administration and Operation including the fee for membership in the Inter-American Statistical Institute and a contribution of \$500 to the International Statistical Institute. \$23,780,900

The Vice-Chairman: Yes. Mr. Cameron?

Mr. Cameron (Nanaimo-Cowichan-The Islands): Since it is ten minutes to adjournment time, I wonder if Mr. Duffett really wants to start it now?

The Vice-Chairman: Gentlemen, there is a suggestion by Mr. Cameron that as it is only ten minutes before adjournment time you may wish to adjourn now.

Some hon. Members: Continue.

Mr. Walter E. Duffett (Dominion Statistician): Mr. Chairman, I would like to introduce to you Mr. H. L. Allen, Assistant Dominion Statistician; Mr. Greenway, his associate; Mr. Porter, the Director of the Census Division; Dr. Simon Goldberg, Assistant Dominion Statistician; Mr. Berlinguette, who is in charge of the Economics Statistics Branch of the Bureau of Statistics; Mr. C. D. Blyth, who is in charge of the general area which concerns itself with the gross national product and the balance of payments; Mr. Wagdin, who is in charge of Financial Statistics; Mr. Traquair who administers the Corporations and Labour Unions Returns Act—one of our associated activities; and Mr. Shackleton, who is in charge of the Operations Division which covers computers, data processing, and so on.

The Vice-Chairman: I understand that Mr. Duffett has a statement to make to you gentlemen. We are dealing with Item 1, which may be found at page 74 of Proceedings No. 1 with details on the following pages.

Mr. Duffett: In June 1966 when I appeared before this Committee I made a rather lengthy statement about the work of the Dominion Bureau of Statistics. On this occasion it may be sufficient if I make a rather more brief statement and leave further matters for the question period.

The Dominion Bureau of Statistics reports to the Minister of Trade and Commerce. It is headed by the Dominion Statistician, who has the status of a Deputy Minister, and its prin-

cipal duties as set out in the Statistics Act include the following:

"(a) to collect, compile, analyze, abstract and publish statistical information relative to the commercial, industrial, financial, social, economic and general activities and conditions of the people;

(b) to collaborate with all other departments of the government in the collection, compilation and publication of statistical records of administration according to any regulations;

(c) to take the census of Canada as provided in this Act; and

(d) generally to organize a scheme of co-ordinated social and economic statistics pertaining to the whole of Canada and to each of the provinces thereof."

The Dominion Bureau of Statistics has been for some 50 years the central statistical agency of the Government of Canada and as I said, is responsible for the development of a co-ordinated system of statistical information covering, so far as practicable, all aspects of Canadian economic and social life. While the inevitable limitation of resources, as well as problems of definition, collection and compilation, mean that this objective is not fully achieved, we have in Canada a statistical system about as highly developed as in most advanced countries and considerably in advance of most others. The Dominion Bureau of Statistics operations are based on the authority provided as I have mentioned by the Statistics Act and, to a lesser extent, by the Corporations and Labour Unions Returns Act. I will refer later to some special circumstances associated with the latter Act but between these two pieces of legislation there is the basis for a comprehensive statistical system. These pieces of legislation are of particular importance in our case because they provide a continuous guide to the nature and limits of our statistical activities. It is some years since the Statistics Act was revised and careful consideration is now being given to the ways in which it might be usefully modernized.

I might say in passing that we have a steady flow to the Bureau Statistics of visitors, national statisticians and trainees from other countries, who find the Canadian statistical system of considerable interest. Last autumn we were hosts to a Conference of Commonwealth Statisticians lasting two weeks and representing both the advanced

and the developing countries in the Commonwealth.

I have a set of charts which indicate the organization of the Bureau of Statistics but perhaps you might wish to look at those, if at all, somewhat later, and I will simply summarize some of the more significant recent developments.

An important change in our organization took place at the beginning of 1967 when a number of divisions, which had, in form at least, reported directly to the Dominion Statistician, were grouped into four major branches. The diversity of activity within DBS and the growth of the organization had made it extremely difficult for the Dominion Statistician to maintain effective contact with some 17 divisions dealing with every social and economic development in Canada. The new arrangement has been in effect only a few months, and has demonstrated, I think, that it has many advantages over the previous organization.

The Blue Book indicates on pages 75 and 76 the details of DBS expenditure under a number of headings and our anticipations for the current year. You may wish to inquire about some of these items and I will gladly explain them, but perhaps this too might be left for the question period.

One feature of the re-organization which I mentioned earlier was the creation of an Operations and Systems Development Branch in DBS, in which are being consolidated a series of Bureau-wide functions associated with the efficient processing of statistical material. To some extent, this represents the consolidation of existing staff from such fields as computer management and programming. However, it symbolizes an intention to increase the resources devoted to this type of work and to make their services more readily available throughout the organization.

The use of modern electronic computers at DBS dates from the 1961 Census. As the very heavy computational load associated with the 1961 Census diminished, the computers have been increasingly utilized for general DBS purposes. As in any rapidly growing field, the use of computers has generally resulted in a capability of producing more needed information without the rapid increase of staff which would otherwise have been necessary. In the field of census statistics, for example, provinces and municipal planning bodies now have at their disposal much more detail than ever before to meet urgent planning needs.

A review of all DBS potential computer applications over the next 5 to 10 years has been made and it indicates that a substantial program of equipment modernization and programmer development must be undertaken. The needs and opportunities in a statistical organization often differ from those in business applications, and the Operations Branch has under way a series of research programs in the field of efficient computer utilization. Staff for such programs is extremely difficult to obtain and cannot be wholly recruited from within the organization but we have been fortunate in borrowing experts from other government departments and, in addition, we have at present the services of an expert from the Systems Development Corporation of the United States, a non-profit organization which has worked closely with U.S. government agencies on similar problems.

A major purpose of such computer research studies is to be sure that the computerization is, in fact, appropriate, that it will yield effective economies and that the equipment is well adapted to the variety of functions which it will be called upon to perform. Of course, by no means all functions in the Bureau of Statistics call for computer processing and a Management Services Section exists whose function it is to improve the utilization of clerical staffs. This, as well as training programs for supervisory and clerical employees, has proved valuable in improving internal efficiency. I anticipate that the work of the Operations and Systems Development Branch will increase in importance over the years to come with a tendency for a smaller amount of the data processing work to be done elsewhere in the Bureau in the subject matter divisions. Our tentative projections of expenditures of this particular Branch up to 1972-73 show a growth from about 12½% of our total budget currently to about 20% of our budget at the end of the period which is an indication of the increasing importance in the organization of this kind of work.

The DBS is, of course, a service organization, producing statistical information not primarily for its own use but mainly for use of government and business decision-making. As I mentioned last year, recent increases in the staff of the organization have reflected the development of new administrative research and planning bodies such as the Energy Board, the Economic Council, ARDA, Area Development Agency, the Industry Department, and so on. Provincial governments have

become active in schemes of regional development and have created research and administrative wings which need new or better facts to work with. In many such cases our contribution has been not so much to produce new statistical series but to improve the quality and detail of the product to provide a reliable guide to others in administering programs involving the expenditures of large sums of money. There are in Canada few non-government research and statistical agencies, so that such needs tend to fall very largely on the Dominion Bureau of Statistics. While the Bureau has found it difficult to expand its facilities as rapidly as its customers wished, it did have the basis for fairly rapid and soundly based growth. In the subject matter divisions of the Bureau there was an underlying core of personnel of expertise, we had an integrating framework, particularly for economic statistics, a small but skilful mathematical and survey research staff, a fully operational household survey system covering the whole country, and a structure of regional offices, all of which have contributed to orderly development in recent years. Nevertheless, the strain has been great on DBS professional and supervisory staff, because growth has occurred during a period of unprecedented recruiting problems. Experienced staff and a small number of experienced professionals particularly have responded in a highly creditable fashion to these increased responsibilities.

I think I should point out, however, that it does not follow that the results from such increased resources are instantly available in the form of better statistics because of the inherent difficulty of producing a quality product. I have in mind, in commenting upon what may appear to be the length of time which is involved in implementing these changes, the computerization of corporation income tax returns which will be completed by early 1968, the development of a comprehensive input-output system, or the gradual extension of sampling procedures into more and more areas of statistical activity.

The laborious nature of our growth procedures sometimes raises the question of whether the officers involved in the organization are unduly perfectionist. The fact is that much of the work is designed precisely to obtain the advantages to be gained from a quality product. For example, by re-design of the survey sample the cost of the labour force survey, one of our largest activities, was actually reduced while its reliability was increased to

an extent which could only have been achieved otherwise by doubling the sampling size. Extremely thin staffing in the balance of payments area has, I am glad to say, been corrected and a large compendium of statistics covering 1946 to 1965 has been prepared.

In the field of economic statistics energy statistics have been improved to the level needed for Energy Board administration, information from the census of distribution, that is, retailing, wholesaling and so on, has been improved substantially by moving to a quinquennial basis at no greater cost than the former decennial census. Export statistics are now available by tariff item and imports by mode of transport.

The process of what might be called "statistical unification", which a central agency is well qualified to pursue, has been actively developed. Consistency and comparability in manufacturing and other economic statistics has been enhanced by a somewhat laborious conversion to a modern system of industry classification and by better establishment definition. The structure of financial statistics, greatly strengthened by use of corporate income tax returns, is moving ahead rapidly.

One of our most extensive and expensive projects is the Census of Population and Agriculture. The 1961 Census cost about \$16,000,000 for field work and processing, the relatively small 1966 Census cost about \$9,500,000, and the 1971 Census may cost something like \$30 million. In such a situation, experimentation in cheaper and better methods of census taking is very important. Plans have been made, therefore, for a number of tests. The first one is being undertaken in London, Ontario in September of this year.

The London trial census is designed to test a mail-out mail-back self-enumerated questionnaire. Heretofore we have used enumerators who rang doorbells and asked questions and the experiment in this case is to see whether it is possible, or to what extent it is possible, for people to respond on behalf of themselves by mail. Three-quarters of the households will receive a short form with basic questions on age, sex, marital status and housing. Sampling techniques will be eval-

uated by having every fourth household receive a longer form, including additional questions on housing; labour force, education, income, and so on. We anticipate that if this system works there will be considerable advantages. In the first place, it should reduce the biases introduced by the way in which the enumerator asks a question. In this case we expect most of the return to be self-enumerated. In the second place, there is a strong possibility of improved coverage, by our giving great attention to what we call an address register: a list of addresses of every household throughout the city.

There is also the likelihood of reducing errors through compressing the census period into a few days instead of having it drag out over a period of several weeks. The publicity ought to be more effective because it can be concentrated into a shorter period of time. The mail-type census is designed for an office edit on-the-spot, that is in London, Ontario, which will make possible extensive telephone and follow-up procedures. Such possibilities are extremely limited in the census which is taken by enumerators.

Finally, the questionnaire used is designed to take advantage of quite advanced electronic scanning and processing equipment in order to record the information when it comes back to the statistical office. If these benefits prove out in the forthcoming test, I think we should get considerably greater value per dollar out of the 1971 census.

I have a number of other points. Would you like me to pause at this point?

The Vice-Chairman: What are your comments, gentlemen? It is ten minutes past one o'clock and the House sits at half-past two. Will we adjourn until next Tuesday at 11 o'clock when we will meet in the same room. Mr. Duffett will continue his remarks at that time. Thank you, very much, gentlemen for your co-operation this week when I was your Chairman for two meetings. I understand that our Chairman, Mr. Gray, will be back with us next week. Thank you again.

If we are finished in time next Tuesday we will have the National Revenue estimates to look over.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, JUNE 20, 1967

RESPECTING

Main Estimates, 1967-1968, Department of Trade and Commerce
and Department of National Revenue.

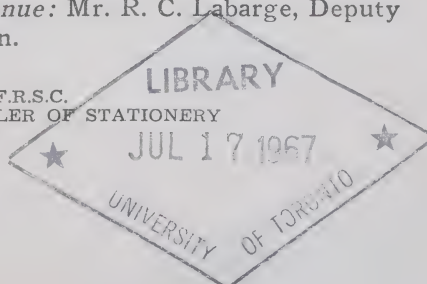
INCLUDING SECOND REPORT TO THE HOUSE

Statement by the Honourable E. J. Benson, Minister
of National Revenue.

WITNESSES:

From the Dominion Bureau of Statistics: Messrs. Walter E. Duffett, Dominion Statistician; L. E. Rowebottom, Assistant Dominion Statistician (General Assignments); H. L. Allen, Assistant Dominion Statistician; S. A. Goldberg, Assistant Dominion Statistician (Statistical Integration); and V. R. Berlinguette, Director, Industry Division.
From the Department of National Revenue: Mr. R. C. Labarge, Deputy Minister, Customs and Excise Division.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967



STANDING COMMITTEE ON
FINANCE, TRADE, AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont
and Messrs.

Ballard,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Laflamme,	Monteith,
<i>Cowichan-The Islands</i>),	Lambert,	More (<i>Regina City</i>),
Cantin,	Latulippe,	Noël,
Comtois,	Leboe,	Tremblay,
Flemming,	Lind,	Valade,
Fulton,	Macdonald (<i>Rosedale</i>),	Wahn—(24).
Gilbert,	Mackasey,	

Dorothy F. Ballantine,
Clerk of the Committee.

REPORT TO THE HOUSE

FRIDAY, June 23, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

SECOND REPORT

In accordance with its Order of Reference of May 25, 1967, your Committee has considered the items listed in the Main Estimates for 1967-68 relating to the Department of Trade and Commerce.

Your Committee has held four meetings from June 8 to June 20, 1967, and has heard the following witnesses:

The Honourable Robert H. Winters, Minister of Trade and Commerce;

From the Department of Trade and Commerce: Messrs. J. H. Warren, Deputy Minister; T. R. G. Fletcher, Dennis Harvey and Maurice Schwarzmann, Assistant Deputy Ministers; L. L. Marks, Chief, Financial Services Division; Patrick Reid, Director, Canadian Government Exhibition Commission; Roger Rousseau, Trade Commissioner Service;

From the Dominion Bureau of Statistics: Messrs. Walter Duffett, Dominion Statistician; H. L. Allen, S. A. Goldberg and L. E. Rowebottom, Assistant Dominion Statisticians; V. R. Berlinguette, Director, Industry Division.

Your Committee requests that the results for Canada of the Kennedy Round of tariff negotiations be referred to this Committee for study.

Your Committee commends to the House for its approval the Main Estimates, 1967-68, of the Department of Trade and Commerce and those of the Dominion Bureau of Statistics.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 2 to 5 inclusive*) is tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, June 20, 1967.

(5)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Cantin, Clermont, Flemming, Gray, Irvine, Lambert, Latulippe, Mackasey, McLean (*Charlotte*), More (*Regina City*)—(12).

Also present: Mr. Addison.

In attendance: From the Dominion Bureau of Statistics: Messrs. Walter E. Duffett, Dominion Statistician; L. E. Rowebottom, Assistant Dominion Statistician (General Assignments); H. L. Allen, Assistant Dominion Statistician; S. A. Goldberg, Assistant Dominion Statistician (Statistical Integration); V. R. Berlinguette, Director, Industry Division; D. M. Greenway, Chief, Financial Services; C. D. Blyth, Director, National Accounts and Balance of Payments Division; D. A. Traquair, Administrator, CLURA; G. A. Wagdin, Director, Governments and Transportation Division; L. A. Shackleton, External Trade Division; W. D. Porter, Director, Census Division.

And also: The Hon. E. J. Benson, Minister of National Revenue; *From the Department of National Revenue, Customs and Excise Division:* Messrs. R. C. Labarge, Deputy Minister; J. G. Howell, Assistant Deputy Minister (Operations); G. L. Bennett, Assistant Deputy Minister (Excise); A. R. Hind, Assistant Deputy Minister (Customs); A. Cumming, Chief, Financial Planning and Development; J. W. Langford, Director, Financial and Manpower Services; J. P. Connell, Director, Personnel Administration; S. L. Allen, Director, Financial Administration.

The Committee proceeded to sit informally and heard the completion of the statement commenced by Mr. Duffett at the last meeting.

The Chairman noting that a quorum was now present, on motion of Mr. Clermont, seconded by Mr. Mackasey, it was

Resolved,—That the evidence just heard be incorporated as part of the Committee's Proceedings.

The Committee resumed consideration of Item 1 of the Main Estimates, 1967-68, of the Dominion Bureau of Statistics.

Mr. Duffett was questioned. Messrs. Rowebottom, Berlinguette, Allen and Goldberg also answered questions.

Item 1 was carried.

Ordered,—That the Chairman report to the House the Main Estimates, 1967-68, of the Department of Trade and Commerce, including those of the Dominion Bureau of Statistics.

Agreed,—That the Committee include in its Report to the House a request that the results for Canada of the Kennedy Round of tariff negotiations be referred to the Committee for study.

The Chairman thanked the witnesses from the Dominion Bureau of Statistics, who then withdrew.

The Chairman called Item 1 of the Main Estimates, 1967-68, of the Department of National Revenue:

1. Customs and Excise—General Administration Operation and Maintenance including authority, notwithstanding the Financial Administration Act, to spend revenue received during the year from firms and individuals requiring special service\$59,720,000

At the request of the Chairman, the Minister made a statement concerning the operations of the Customs and Excise Division of his Department.

The Minister was questioned, and was assisted in answering questions by Mr. Labarge.

Item 1 was allowed to stand.

At 1:05 p.m., the Committee adjourned until 11:00 a.m., Thursday, June 22, 1967.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, June 20, 1967.

The Chairman: I would like to thank our Vice Chairman, Mr. Clermont, for very capably filling the Chair last week when I was unavoidably elsewhere. I understand considerable progress was made and that might be an argument for some, which I hope will not be generalized, that this is a good reason for me to be away more often. I hope this will not be supported by too many. In any event, Mr. Duffett, perhaps you wish to proceed with your statement.

Mr. W. E. Duffett (Dominion Statistician, Dominion Bureau of Statistics): Thank you, Mr. Chairman.

Last week I presented a summary of recent developments in the Bureau of Statistics. There are two things which I mentioned and which I did not go into in detail. One is a reorganization which took place at the beginning of this year and which we believe facilitates communication and management within the Bureau of Statistics. I would be prepared to comment further on that if you wish.

The estimates themselves contain a number of changes, many of which are of a bookkeeping nature, but I would be happy to comment on them in detail once again, if you wish.

In completing my remarks I would like to say a few words about one of our activities under the Corporations and Labour Unions Returns Act, and about a matter which is of some concern usually, and that is the extent to which questionnaires sent out by the Dominion Bureau of Statistics constitute a burden on respondents.

• (11:15 a.m.)

The Corporations and Labour Unions Returns Act is one of the two pieces of legislation under which we operate. The Statistics Act is the major one and I referred to that last week. The Corporations and Labour Unions Returns Act is a more recent piece of legislation. It is administered by the Dominion Statistician and in fact the administration of the act is now combined with the operations of the Dominion Bureau of Statistics. The act was passed in 1962 and

amended in 1965 in a manner which has made it possible for DBS to assume the responsibility formerly exercised by the Department of National Revenue, in the preparation of the portion of a Taxation Statistics Report dealing with corporation statistics. The basic purpose of this Act was to provide information about corporations and labour unions, especially those with foreign associations.

In January of the present calendar year the report covering labour unions for 1964 was published and in March the report covering corporations for 1963 was released. We hope that the 1964 report for corporations and both reports, corporations and labour unions for 1965, will be available toward the end of this year. In other words, there is a catching up process taking place.

The 1965 report, by the use of more computer processing will, we believe, set a new standard for improved statistics achieved without the reporting of further detail by corporations, which represents a better use of the data that is now available.

At about the same time, there will appear the first DBS produced volume of taxation statistics dealing with corporations covering the year 1965. This is a publication which heretofore has been published by the Department of National Revenue.

The computer-oriented tabulation structure underlying both of these reports should produce a valuable and greatly improved system for making special studies of Canadian corporations. Last year this Committee showed considerable interest in some problems associated with the labour unions' part of this Act and suggested in their recommendations of October 25 that consideration should be given to extending the scope of the Act. Since that time considerable study has been devoted to the feasibility of modifying the legislation in order to, first eliminate the small amount of duplication that exists now with the work of the Department of Labour and second, to provide more useful and complete information about the activities of trade unions. There have been discussions with the Department of Labour, with officers of one of the major trade unions and with two expert

university professors concerned with labour matters. Although the problems are not easy ones and no clear course of action has emerged, in fact the problems are being actively pursued. At the moment there are three government-sponsored task forces whose recommendations might have a bearing on possible modifications of both the corporation and the labour portions of this legislation. These task forces are investigating the federal Companies Act, the structure of Canadian industry with special reference to foreign ownership and, finally, there is a task force dealing with broad labour matters.

I would like to conclude with a few words about the Dominion Bureau of Statistics as it is seen by those who respond to our request for information.

The Chairman: Might I interrupt, Mr. Duffett? For the record, we are now in a position to proceed officially.

Mr. Clermont: I move that the preceding portion of this meeting be officially incorporated in our Minutes of Proceedings.

Mr. Mackasey: I second the motion.

Motion agreed to.

The Chairman: Mr. Duffett, you may proceed.

Mr. Duffett: During the last few years, the need for statistics for administration of not only federal government programs but provincial government programs has very much expanded. While DBS has been able to meet some of the many programs of the provinces, a number of the provinces, especially Ontario and Quebec, have established or expanded statistical agencies of their own in order to develop detailed statistics for their provinces and for regions within provinces. The possibility exists in a situation like this of duplicate requests directed to business firms and to some extent individuals. However, we have a number of co-operative arrangements covering surveys of interest to both ourselves and the provinces using identical returns which are sent to DBS and to the provincial statistical offices, thus relieving respondents of the burden of preparing two different returns on the same subject. In the case of Quebec, for example, all annual censuses of manufacturing, mining and forestry questionnaires are identical and, with the consent of the respondents, the information is shared by the Dominion Bureau of Statistics and the Quebec Bureau of Statistics.

In these and in other ways we are continuing our efforts to minimize the response bur-

den on business firms, individuals and farmers. DBS' own requirements for statistics are now in fact increasing very little, but respondents are increasingly called upon to provide information for legislative, tax or social security purposes. As long ago as 1962, the Glassco Commission concluded that only about 20 per cent of the external forms of government originate in the Dominion Bureau of Statistics. I believe, however, that this may be a modest underestimate because our forms in some cases go out several times a year. The other 80 per cent or so of federal government forms are required by such agencies as the Unemployment Insurance Commission and the Department of National Revenue.

As I mentioned above, DBS is attempting to utilize some of the information obtained on these administrative forms for statistical purposes. Within the departments of the federal government an attempt has been made to reduce the possibility of duplication of questionnaires sent to the public by a recent Treasury Board directive requiring all Federal Departments collecting information from more than 10 respondents to supply copies of these questionnaires to the Dominion Statistician, who has them examined from the point of view of duplication and informs the department of possible alternative sources of information.

That is all, Mr. Chairman.

The Chairman: Thank you, Mr. Duffett.

The meeting is now open for questions and discussion. I believe Mr. Clermont has some questions and I would ask other members who wish to direct questions to signify in the usual way.

(Translation)

Mr. Clermont: Mr. Duffett, in your remarks about the year 1966 you mentioned that your staff in the economy and research fields was not sufficient and, as a result, your service could not provide all the information that industry and the federal, provincial and municipal governments were asking of the Dominion Bureau of Statistics. Was the same situation prevalent at the end of 1966, and does it still persist in 1967? That interests me, because from what I can see on page 76 your staff has increased by 456 employees. Did the staff increases occur within the ranks of the economists and researchers or in the administrative ranks?

(English)

Mr. Duffett: The increases in our establishment have occurred both among the ad-

ministrative and clerical staff and in the professional staff. For example, on page 75 there is a classification of positions and the first group includes executive, scientific and professional people. Taking those from \$18,000 to \$20,000 down to \$6,000 or \$8,000, which are most of the professional staff, there has been an increase from 442 positions to 479 positions in these two years. Of course it is necessary to support the professional staff with technical and clerical staff and these also have increased, as you have observed.

(Translation)

Mr. Clermont: Would it not be possible to include some questions about manpower in your five-year census? Recently I received a query about manpower from a director of regional retraining. The statistics that were provided for me were those for 1961.

(English)

Mr. Duffett: Yes, the 1966 census was a small census and only about five questions were asked because this was all that we could administer; but in preparation for 1971, I think it is quite definite there will be questions on the labour force. As you say, the most recent questions on the labour force relate to 1961, but I am sure there will be comprehensive questions in 1971 on the labour force.

(Translation)

Mr. Clermont: It is the ten-year census. But in future, say in 1976, might not such questions be included in the five-year census? Because if industry and other organizations have no alternative but to wait for every tenth year to obtain the most recent figures—

(English)

Mr. Duffett: Yes, there is a problem here. There is, of course, a monthly survey of the labour force which provides a great deal of information on a sample basis about the labour force broken down by provinces which does provide, at that level of detail, a good deal of information. The great advantage of the census information on the labour force is that it is a full census, a full enumeration and it can be broken down in very considerable detail.

The possibility of obtaining census-type information on the labour more frequently than every 10 years has been considered from time to time, but it is burdensome information to obtain.

(Translation)

Mr. Clermont: Mr. Duffett, I understand that big business often avails itself of your services. Does the same apply to small concerns?

(English)

Mr. Duffett: There is a difference. Large enterprises naturally have skilled economists and people who are skilled in market research and to a greater extent they tend to use our publications. About one year ago, however, we published a document which I believe I distributed to this Committee last year entitled *How to Profit from Statistics*. This was intended to help medium and small-sized enterprises to use DBS statistics. This was a great success and many thousands of copies were requested and I think rather widely used. So far as small enterprises are concerned, many of them benefit indirectly from our services perhaps without recognizing it. Most of them depend very heavily on trade associations of one kind or another which make very considerable use of our material. In many cases the trade associations reprint our material and circulate it to the firms themselves.

(Translation)

Mr. Clermont: My final question on Vote 1 is this, Mr. Chairman: I believe, Mr. Duffett, that in your remarks last week you gave us the total cost of the 1966 census. Is that correct?

(English)

Mr. Duffett: Yes. The cost of the 1966 census was approximately \$9.5 million.

Mr. Clermont: Thank you.

The Chairman: I now recognize Mr. Irvine.

Mr. Irvine: Thank you, Mr. Chairman. I would like to ask Mr. Duffett how they justify the increase in manpower in the Department. I believe there is an increase of the order of 12 per cent. There must be a reason for that, and I presume there is.

• (11:30 a.m.)

Mr. Duffett: Yes. This increase and increases in recent years have represented to some extent a catch-up from a period of very low increases up to about 1962. At about that time the Glassco Commission had a look at our operations and recognized that the Bureau was under very considerable pressures and was not, in their opinion, able to provide adequate information for decision-making in business firms and in government. At about the same time, a number of agencies began to develop at the federal level and in the prov-

inces needing our services and frequently needing, not only more statistics, but needing more precise statistics for decision-making purposes.

A good example is the Energy Board. We had produced some statistics on energy production over the years, but they were not sufficiently precise for the sort of decisions which the Energy Board was now called upon to make. Our resources in this area have been increased. However, the Energy Board was by no means the only agency in this category. The Economic Council has pressed us again and again. I have here their third annual report and it urges that additional resources be supplied to the Bureau of Statistics in order to produce more data. Other agencies in a similar situation were ARDA, the Area Development Agency, the Atlantic Development Board and other similar agencies in the provinces. In the last five or six years, the provinces have suddenly become very active in schemes of regional development. As I mentioned, they themselves have to some extent set up fact-gathering resources of their own, but they depend very heavily on us and have asked us to provide some increase in material.

There have been a number of other reasons for increases in recent years. I mentioned the Corporations and Labour Unions Returns Act, which was a new function we took over amounting to around 100 positions, not in the last year, but over the last four or five years. We are also carrying on work for the Treasury Board in maintaining a register of Civil Service personnel.

Mr. Irvine: Right now, in addition to this, you have several bureaux which I believe have been set up provincially. There is one in Quebec and I believe there is one in Ontario. Are there others?

Mr. Duffett: Most provinces have them to a greater or lesser degree. The others are rather small, but they have been growing.

Mr. Irvine: And they do collaborate with you, and you work together on this?

Mr. Duffett: Yes.

Mr. Irvine: Does this not have a tendency to reduce in some way your work load on the federal plane?

Mr. Duffett: It tends not to, because the reason they have been set up is because they require statistics over and above what we produce. Usually they are interested in statistics of small areas and surveys for special

purposes. We work very closely with them. About one month ago, we had the Sixth Conference of Federal-Provincial Statisticians and for about a week there was a comprehensive review of co-operative arrangements and of their needs and the extent to which we could satisfy them.

Mr. Irvine: Unless I misunderstood what you said, I believe you said that the Quebec Bureau of Statistics had one particular form which is identical with one of the federal forms.

Mr. Duffett: It is the same form.

Mr. Irvine: The same form. Are there any other instances in the other provinces where you have a complete duplication of the exact form?

Mr. Duffett: Yes.

Mr. Irvine: Does this not have a tendency to cut down on the work load?

Mr. Duffett: It does not cut down on the work load; it prevents the work load from increasing. For example, the Province of Ontario develop their statistical structure and find it desirable to have access to individual returns. They come to us and say: "It may be necessary for us to duplicate your work, but perhaps we could get together and achieve some co-operation." We tell them we can and we do. But these co-operative arrangements represent an additional need by the provinces and I do not see how they could have the effect of reducing the work load.

Mr. Irvine: All right. I do not suppose you would agree with this, but I am just wondering if there would be any possibility—you have an increase here of some 12 per cent in your manpower according to the figures—that the productivity of the individual might be down somewhat, might be reduced from what it was previously, or do you think that this additional manpower is the result of additional work load and, if so, what work load?

Mr. Duffett: I do not see how it could represent a decrease in productivity, because we simply do not feed additional resources into the divisions of the Bureau for this purpose. The Treasury Board certainly would not countenance this. The additional resources are obtained for particular individual specific requirements. So far as productivity in the organization is concerned an attempt is continuously made to see what we can do to improve it. One of the major possibilities, of course, lies in increasing computerization. In

general, the use of computers in the organization has been growing steadily. Our original computer installation was acquired for the 1961 census, and as the burden of recording the census since its tabulation has decreased, we have increasingly used these computer resources in other portions of the organization. We foresee the possibility of a still further increase over the years.

Now that applies to a rather sophisticated type of production. In the less sophisticated types or production in which essentially clerical functions are performed, we have a small staff within the Bureau whose function it is to provide management services to the divisions to see what can be done to ease the pressures. The organization as has been mentioned, is subject to demands for services which are far in excess of our capacity to satisfy them. As a result there is a continued pressure on the divisions and sections within the organization to see if they cannot squeeze out additional resources from their present establishment to produce these new requirements.

Mr. Irvine: In the current fiscal year, what would you estimate would be the additional output percentagewise of reports from the department?

Mr. Duffett: I should ask one of my colleagues about this, but my impression is that the additional output of reports is not as great as might be assumed from the increase in the total number of employees. What tends to happen is that the reports become more elaborate, more detailed—

The Chairman: Fiscal reports.

Mr. Duffett: —and more accurate statistical reports. In some cases, there will certainly be additional reports, but the requests, for example from the Economic Council, tend to be for more detail, more specificity, more timeliness, rather than research into new subjects.

The general structure of the Dominion Bureau of Statistics has not stopped growing in the areas in which we conduct investigations, but it is growing relatively slowly. What we are attempting to do is to do a better job within many of the areas in which we operate.

Mr. Irvine: I have had representations made to me by a certain individual enterprise which has grown rather large in the last few years. They are in the hardware and appliance business. How many reports would they be required to complete during the course of a fiscal year?

Mr. Duffett: It may be that one of my colleagues could help. Mr. Rowebottom can devote some attention to this.

The Chairman: Mr. Rowebottom, would you please sit in front of one of the microphones so that your remarks can be more easily transcribed?

Mr. L. E. Rowebottom (Assistant Dominion Statistician, General Assignments, Dominion Bureau of Statistics): Mr. Chairman, to a very considerable extent, this would depend on the size of the company.

Mr. Irvine: Let us say they are doing a volume of some \$5 million.

Mr. Rowebottom: They would certainly be called upon to complete the annual census of manufacturers report. They would most likely be called upon to complete one or two monthly commodity shipment surveys.

Mr. Irvine: One or two?

Mr. Rowebottom: Yes. A survey on new orders and inventory and on employment.

• (11:40 a.m.)

Mr. Duffett: Mr. Berlinguette, are there others?

Mr. Rowebottom: There may be one or two others.

Mr. Irvine: Corporation Labour returns—

Mr. Rowebottom: Profits, assets and liabilities.

Mr. Duffett: The Corporations and Labour Unions Returns Act returns are in two parts. For the major return, that is the financial statement, a special statement is not required. We use the same statement as is submitted to the Department of National Revenue. In addition to that, there is a short portion having to do with the ownership of shares, Part A, which still has to be obtained from the firm.

Mr. Berlinguette may be able to offer a little more detail on that, because he is in charge of the manufacturing area.

Mr. V. R. Berlinguette (Director, Industry Division, Dominion Bureau of Statistics): I am not quite sure that I understood, Mr. Chairman. Did the member say a hardware store?

Mr. Irvine: Yes, I said this is a retail enterprise.

Mr. Rowebottom: We are not called upon to complete those. I am sorry, I thought it was a manufacturing establishment.

Mr. Irvine: I am thinking of the retail end of it then, because these are the ones who are objecting to the number of returns they have to fill in or complete. Could someone give me some information as to just how many returns they would be called upon to complete?

Mr. Berlinguette: Most certainly there would be the monthly retail sales and the monthly employment report. Annually, I would imagine they would fall into the CALURA legislation. Certainly it would depend also on ancillary operations, whether they are involved in storage or some distribution activity. It depends on what sort of complex business they are involved in. I would have to have more detail to be able to answer more precisely.

Mr. Irvine: Yes. Now, let us say there is a minimum of three reports. Therefore, this firm that I made mention of branched out into the furniture field last year. Would this entail further reports?

Mr. Berlinguette: Not necessarily.

Mr. Irvine: It would be all embraced. But they would have a minimum of three reports that they had to file. I would like to ask this: Is there a penalty of any kind for a firm's refusing or not complying with the requests?

Mr. Duffett: Yes. The Statistics Act provides penalties for those who do not respond. It is our firm policy to avoid utilizing these powers of compulsion. We like to do it by persuasion, by having representatives of our regional offices visit the firms to see whether in some way the form can be simplified to meet their problems. When new surveys are undertaken, the policy is to get in touch with the trade association, or with a group of the principal firms, and try to devise forms which correspond to the accounting practices of the firms.

Mr. Irvine: If it were necessary to penalize one of these firms, what would the penalty be?

Mr. Duffett: It has not been used for so many years that we have forgotten, but it is in the Act.

The Chairman: I gather your approach is to seek co-operation through persuasion?

Mr. Duffett: It has been many years since any prosecutions were undertaken.

Mr. More (Regina City): They just send a telegram saying: "Within seven days or we shall launch action." That is the persuasion.

Mr. Irvine: It is many years since action has been taken? I believe this gentleman has a reply.

Mr. Duffett: The Act reads:

...for every such refusal or neglect, or false answer or deception, guilty of an offence and is liable, upon summary conviction, to a fine not exceeding \$100, or to imprisonment for a term not exceeding three months, or to both fine and imprisonment.

Mr. Irvine: I wonder if I might add one further point?

You inquired about the increase in the work activity of the Bureau. There is one thing I failed to mention that is quite important; that is that with the growth of the economy, there is a steady increase in the amount of processing that takes place in many fields. For example, in recent years, Canadian trade has been growing. Exports and imports both have been growing and the establishment or the staff necessary to code these reports as they come to the Bureau increases almost every year. It is an annual increase of something of the order of 5 per cent or in that area. In the case of the Corporations and Labour Unions Returns Act, there is an increased burden, since the number of corporations in Canada has been tending to increase at about the rate of 10 per cent a year. The same sort of growth does take place throughout the organization.

Mr. Irvine: I have one further question. What percentage of return on these requests that are made does the Bureau enjoy?

Mr. Duffett: Well, it varies a good deal. I think in this case, thinking of manufacturing or merchandising, I might ask Mr. Berlinguette again to speak about this because this is his particular area of responsibility.

Mr. Berlinguette: Was that in terms of numbers or in terms of coverage of the activity concerned?

Mr. Irvine: Say percentage-wise.

Mr. Berlinguette: I would say 90 per cent of a census.

Mr. Irvine: Ninety per cent return?

Mr. Duffett: But this 90 per cent will cover more than 90 per cent of the production in the area.

Mr. Berlinguette: It would cover certainly 97 or 98 per cent of the production.

Mr. Irvine: It would cover more than 90 per cent?

Mr. Duffett: Ninety per cent of the firms would cover perhaps 98 per cent of the production because the large firms, generally speaking, find no difficulty in replying to us.

Mr. Irvine: Yes. Now getting back to this listing under Vote 1. Under the listing of salaried positions there are executive, scientific and professional positions. I notice there is quite an increase in the bracket \$14,000 to \$16,000. There is an increase of ten employees there which I presume are either new positions or people who have been moved up from the lower brackets. How is this justified?

Mr. Duffett: It is justified very largely in terms of the increasing sophistication of the work which we do. As I mentioned, the Economic Council and bodies like this require much more precise information than we had been in the practice of providing before. In some of the new areas in which we are undertaking work it requires fairly senior, fairly experienced staff to carry on the work.

Mr. Irvine: I presume the same thing holds good in the administrative and foreign service because there is another bracket where there is an increase in \$12,000 to \$14,000 bracket from 21 to 39 positions. But down in the administrative support section in the \$4,000 to \$6,000 bracket, there is an increase of 193 employees for the current year over the year 1966-67. How can this be justified? Are these survey people? The increase is from 1258 to 1451.

Mr. H. L. Allen (Assistant Dominion Statistician, Dominion Bureau of Statistics): Mr. Chairman, the reason for that substantial increase in those clerical positions—I cannot give it to you in minute detail—is the salary conversion to government-wide new rates. It was not a reclassification of a large group of positions. It was the conversion of salary for all of the government. It was not our own action but was following in the pattern set for the government.

Mr. Irvine: The thing I am getting at, Mr. Allen, is that there is an increase, I believe, of 193 people in that particular area.

Mr. Allen: Yes, sir.

Mr. Irvine: Why?

• (11:50 a.m.)

Mr. Allen: I believe the answer to that is that they are work load clerks who have moved up from the bottom bracket and the new positions came in at the bottom.

The Chairman: Are they handling a demand for processing of more data?

Mr. Allen: Pardon me?

The Chairman: Is this partly in response to the need to process more data?

Mr. Allen: The new positions are in response to that need. The difference in the salary, though, is because of the conversion of the salary ranges to new salary ranges.

Mr. More (Regina City): I have a supplementary, Mr. Chairman. It does not indicate that, because you have an increase in the under \$4,000 group over last year. So it does not indicate that it is just a move up.

Mr. Duffett: No, it is not solely that. These are clerical positions and in many cases they represent the increased work load. I mentioned the increased work load that goes with trade statistics and an increased work load that goes with an increasing number of firms. There is some increase in our functions. It is very difficult to specify a single reason but the increase in clerical staff ordinarily represents simply a larger flow of paper work passing through.

Mr. Irvine: I say, without being facetious in any way, that this would indicate to me there must be an additional group of people placed in these particular positions because of a decrease in productivity of the people who were previously there. The increase in the number of employees is so much greater than the increase in the productivity.

The Chairman: Do you agree with that?

Mr. Duffett: No, I do not think so. We add additional resources when the existing resources, used as efficiently as we know how, are inadequate to do the job. The job has grown this year. It grew last year and it very likely will grow somewhat next year and it is simply in response to increased requirements from the organizations. Treasury Board is not in the habit of assigning additional resources to offset a deterioration in productivity.

Mr. Irvine: Thank you, Mr. Chairman.

The Chairman: Before I recognize Mr. Mackasey I might direct the attention of the Committee to the fact that as pointed out by Mr. Duffett, the Economic Council Third Annual Review devoted a special heading on pages 187, 188 and 189 entitled "The Need for New and Better Statistics" as part of its discussion at that time. I will not go into it but its interest was in its summary of conclusions.

Under item number 11 at page 193 I find the following:

There is a general and immediate need for improvements in price and other economic statistics. For this purpose, the Dominion Bureau of Statistics should be substantially strengthened.

Have the staffs you mentioned in replying to Mr. Irvine's question been the reaction, to some extent, to this type of request?

Mr. Duffett: Yes. The Economic Council, in all its reports, I think, has made observations of this kind. The last report, from which the quotation was made, referred particularly to the need for increased facilities for statistics in the area of prices and productivity.

The Chairman: Did I understand you to say that the Glassco Commission actually called for a strengthening as well?

Mr. Duffett: Yes; they spoke of the need to strengthen the organization. They mentioned the fact that there was a serious lack of understudies. Following the Glassco recommendations and in part because of them, I think, increases began to take place about that time.

The Chairman: I find that rather interesting because in other areas the Glassco Commission, as I recall, made recommendations of moving in the opposite direction.

Mr. Duffett: I think that is correct.

Mr. Mackasey: Mr. Chairman, most of my questions have been answered. They were asked by Mr. Irvine. Could it be true that the increase in staff, particularly in the clerical group, is due to the fact you are servicing or sending statistics to a larger number of industries, manufactures and retail outlets than ever before? Do your statistics, in other words, indicate that there are more outlets?

Mr. Duffett: Are you referring to the fact that there are more manufacturing and retailing concerns or more users of this material?

Mr. Mackasey: Well, both. Would this not justify the increase in staff?

Mr. Duffett: To some extent. The increase in the number of firms does call for a modest increase in staff required to handle questionnaires, and in particular to code and deal with questionnaires when they return to us.

I might say that in the case of the small firms the questionnaires sent out are usually very simple ones which do not require nearly as much attention as the questionnaires which are directed to the large firms.

Mr. Mackasey: They say there are lies, liars and statisticians. I do not believe in the theory.

Mr. Duffett: I think this is a tribute to the effectiveness of statistics.

Mr. Mackasey: Does anyone know the percentage ratio of employees to the number of outlets? I am using the word "outlet" very generally. I am trying to be the Devil's advocate. You have only got an increase in staff here of around 10 per cent and mostly in the clerical end. I am just wondering what the over-all increase is in manufactures, retail outlets, all these different contributors to the gross national product serviced by your department and from which you demand or solicit information.

Mr. Duffett: I do not have the information here on the increase in the number of outlets.

Mr. Mackasey: I would prefer you to say you do not have the statistics on this rather than information.

The Chairman: Are they not the same thing?

Mr. Duffett: Statistics are a kind of information.

Mr. Mackasey: Could we find this out?

Mr. Duffett: Oh, yes. We could quite readily supply information on the number of firms reporting to the Bureau of Statistics which is broadly speaking all the firms there are in any fields you would like to specify, in manufacturing or in retailing.

Mr. Mackasey: In other words I would just like to know, because your staff has increased 10 per cent in the clerical end, if there is a possibility that the number of people supplying this information has also increased in proportion.

Mr. Duffett: I should think this is probably the case but we could quite readily provide it. As I mentioned earlier the number of corporations in Canada increases by about 10 per cent a year.

Mr. Mackasey: I was surprised, sir, at the high percentage of forms returned because at one time or another I was plagued by reports and follow-ups and so on. Do you have field men who will go if a small retailer requests your assistance in filling out these forms?

Mr. Duffett: We have eight regional offices in the principal cities from St. John's, Newfoundland, to—

Mr. Mackasey: Is this one of the services the regional offices will supply?

Mr. Duffett: This is one of the obligations of the regional offices, of course. The regional offices cannot in fact go and fill out the respondent's own forms. We simply do not have enough resources for this but they will help them and in some cases where a respondent cannot provide information on a particular item our people will work out with them some means of estimating the figure.

Mr. Mackasey: You mentioned trade associations, the better ones certainly, as using your statistics to great avail. I know this is true for instance of the printing industry but supposing a printing firm is not a member of a trade association. What form of statistics will you supply him with and must he convert these statistics himself into ratios or then again has he to go to the Department of Industry for this?

Mr. Duffett: Mr. Berlinguette, would you like to comment on this?

Mr. Berlinguette: I am sorry, Mr. Chairman, I was speaking to my colleagues here.

Mr. Duffett: The question was—perhaps you would care to repeat it?

Mr. Mackasey: Well, if I can remember my question.

The Chairman: I think the question was: what happens if a retailer or person from a particular industry does not belong to a trade association and does not have access to the statistics they publish garnered from your work? What can he do to get the benefit of your efforts in this area? Can he come to you and get this information or does he have to go elsewhere?

Mr. Berlinguette: No, absolutely.

The Chairman: Does he break it down himself?

Mr. Mackasey: I know he can come to you but this is not exactly what I meant. A trade association usually converts your statistics into meaningful ratios: the ratio of rent to sales; the ratio of raw materials to sales; this type of thing. If a printing establishment is not part of a trade association for one reason or another, do you supply him statistics in that form, or do you supply him raw figures which he has to convert?

Mr. Berlinguette: No. If he comes to us and makes a request of that nature, we will certainly make a compilation for him. We do not refuse any legitimate request that can be met.

Mr. Mackasey: Perhaps I am not making it quite as clear as I want. For instance through a printing trade association they may supply the information on a firm doing from \$250,000-\$500,000 volume a year for a small print shop. Can they expect, if efficiently operated, a return we will say, of 6 per cent or 7 per cent or 3 per cent? Do you supply figures in that form, or must they get them from the Department of Industry?

Mr. Berlinguette: Yes, we have what we call operating results in the case of trades, which analyses the information and provides ratios of that nature.

Mr. Mackasey: You say in the case of trade, but what about in the case of manufacturers?

Mr. Berlinguette: The same thing.

Mr. Mackasey: You do. You also mentioned the Province of Quebec as using certain statistics that are made available. I think you mentioned forestry and mining. Am I right in this?

Mr. Duffett: Yes.

Mr. Mackasey: Do they share in any way in the cost of compiling these figures?

Mr. Duffett: They share in the cost that you mentioned; they help us with the follow-up work, and it is very helpful because they have another regional organization which is in very close contact with the respondents.

Mr. Mackasey: You see, what scares me about what you have told me is that there seems to be such a duplication. I have visions, like the average taxpayer, of the federal government's Bureau of Statistics' compiling information and then of the provinces compiling the exact information. I am just wondering if through co-operation you can save a few dollars. You say follow-up; would you define the type of follow-up?

Mr. Duffett: Perhaps Mr. Berlinguette once again can answer this question.

Mr. Berlinguette: Yes. It means, basically, trying to get the returns in on time. There are always some delinquents, and we share the work with the province in this instance; both our office in Montreal and the Quebec Bureau of Statistics divide the work of following up these delinquents.

Mr. Mackasey: But these reports of the delinquents, which are usually in a small retail outlet are directed to Ottawa, rather than to Quebec?

Mr. Berlinguette: In the case of the census of manufacturing, there is a double form. In other words we share the two copies of the same form. One copy goes to Quebec, the other copy to DBS.

Mr. Duffett: The respondent can, in other words, put the form into a typewriter with a piece of carbon paper and at the same time respond to both agencies.

Mr. Mackasey: Do they then mail these copies to the two sources at the same time, or is there one clearing house for this?

Mr. Duffett: No, I think they are mailed separately.

Mr. Rowebottom: Two separate addresses.

Mr. Mackasey: Just for clarification, in an earlier answer to a question by Mr. Irvine, you mentioned monthly retail sales forms. I may be wrong, but the record may have been left rather ambiguous. The impression may have been left that this form is sent in monthly, but this is not the case.

Mr. Berlinguette: This is a monthly survey. It is a sample survey, of course. The smaller trades are subject to sample. Of a universe, let us say, of about 150,000 retailers, there is a sample of about 18,000.

Mr. Mackasey: They must submit this form every month?

Mr. Berlinguette: That is correct.

Mr. Mackasey: How much time do you give them to compile this?

Mr. Berlinguette: In the case of the monthly retail, I think it is 21 days.

Mr. Mackasey: In most provinces, at least in my province, I suspect you have only ten days in which to submit your form because of the provincial sale tax. Has there ever been any thought of dovetailing or using this?

Mr. Berlinguette: We are investigating that very possibility.

Mr. Mackasey: In other words if we submit our provincial sales tax records—and most provinces have them now—you could use these figures, could you not?

Mr. Berlinguette: That is correct. There are difficulties of classification of course in the way they keep the records, but we are investigating the possibility of using sales tax records for this purpose.

Mr. Mackasey: Thank you, Mr. Chairman.

Mr. Irvine: Mr. Chairman, may I ask a short supplementary question to what Mr. Mackasey has been discussing?

The statement was made that there are several regional offices across Canada. Could I have the information, if it is available now, as to where they are located?

Mr. Duffett: Yes, these are located in St. John's, Newfoundland; Halifax; Montreal; Toronto; Ottawa; Winnipeg; Edmonton and Vancouver.

Mr. Irvine: Thank you very much.

Mr. Duffett: These offices are used for a variety of purposes. They assist materially in the collection of information in the labour force survey. There is a monthly survey of the labour force, a sample survey of something of the order of 35,000 households and this is one of their main administrative tasks; they collect information on prices from retail stores; they help respondents who have difficulty with forms; they constitute the focus of activity in each area when the population census is taken; they perform a great variety of jobs like that.

The Chairman: I am going to recognize Mr. Cameron, but if you will permit me I will ask a very quick question. Is there any other way of getting basic information as to how the economy is going and information to be used as a basis for making policy decisions by governments without taking these kinds of surveys? Is there any other way of doing this, any other way of getting the data?

Mr. Duffett: One of the major alternatives is that of using administrative statistics. For example in the field of trade we use the identical documents that are prepared by importers and exporters in connection with the requirements of the Department of National Revenue.

The Chairman: I am referring specifically to domestic matters. Is there any other way, for example, of seeing the trend of retail sales without taking a survey of the merchants as to what they are selling?

Mr. Duffett: There are possibilities and the possibilities are explored very thoroughly of using, for example, the results of the sales tax, as has been mentioned. In that area I am not aware of any others; there are such things of course as bank clearings, but they are not very specific.

The Chairman: Am I right in suggesting that even after these possibilities are explored there are certain areas where basic information cannot be garnered without taking surveys?

Mr. Duffett: That is true. We do devote a lot of time to looking at various kinds of administrative statistics in the hope that they may be used for statistical purposes without the necessity of approaching individuals; for example, information on the migration of people from one province to another. In attempting to estimate this we use the records from the family allowance directorate in the Department of National Health and Welfare, because they are notified of changes of address of families with children. This is not a perfect measure because families with children may migrate more frequently or less frequently than other people in the community, but this does represent a basis for making an estimation.

Mr. Cameron: Mr. Duffett, I was wondering when Mr. Irvine was asking questions about the increase of staff; is there a fairly constant ratio between your scientific and professional staff and your clerical staff? It stays fairly constant, does it?

Mr. Duffett: Well, in an organization as large as we have it probably appears to stay constant, but from time to time there will be quite a divergence depending on the kind of jobs we undertake. For example, we are making preparations to do a large survey operation for the Department of Manpower—a survey of job vacancies. This particular survey will involve a rather small number of professionals in contrast to the number of clerical people. This arises simply from the nature of the survey. In other areas, for example I mentioned an increase in our resources devoted to energy statistics over the last few years, the tendency would be, to some extent, towards more professional people, because the problems are those of improving an existing series, rather than primarily adding to it.

Mr. Cameron: Expansions of your fields of investigation would in the first instance require additions to your professional staff.

Mr. Duffett: For planning purposes.

Mr. Cameron (Nanaimo): And then a corresponding increase for supporting personnel.

There is just one other question that I want to ask. You may have dealt with this before I came in this morning. Probably you told us last year. I notice there is an item here for Administrative and Foreign Service. Could you give some details on the foreign service?

Mr. Duffett: I think Mr. Allen should answer this. This is simply a classification which the government uses for a certain type of people.

• (12:10 p.m.)

Mr. Allen: It is simply a category; it is a new arrangement; we do not have any foreign service office.

Mr. Cameron (Nanaimo): I wondered why you would have.

Mr. Duffett: The closest we get to foreign service activities is that we have one or two officers whose duty it is to establish the cost of living in a variety of countries throughout the world, to help the Treasury Board and the Department of External Trade to establish pay differentials or allowance differentials. That is as far as we get to foreign operations.

Mr. Cameron (Nanaimo): Thank you.

Mr. Ballard: Thank you, Mr. Chairman. I have a couple of questions that I would like to ask just for my own clarification. First of all Mr. Duffett said during his discourse that his Department was setting up a task force to deal with amendments to the federal Companies Act.

Mr. Duffett: May I interrupt. What I intended to say was that there is a task force under the Department of the Secretary of State, and that the conclusions of this task force might have some effect on the way in which we collect corporation statistics.

The Chairman: You are not setting up a separate task force.

Mr. Duffett: No.

Mr. Ballard: You are not promoting the idea, for example, that there should be provisions within the Companies Act itself to make it easier for your Department to collect statistics; in other words, with penalties and so on in an amended companies act.

Mr. Duffett: We would be very much interested in what went into an amended companies act because it would affect the sort of information that comes to us through the surveys we now undertake, but we are not an active element in this task force.

Mr. Ballard: And you are not proposing new sections to the Act that would make for more compulsion?

Mr. Duffett: No. We play no part in this whatever.

Mr. Ballard: I was wondering also, Mr. Chairman, as a matter of interest, what tests the Department makes on the accuracy of the returns that are filed, and also if you have any way of calculating the percentage of error in the returns that are filed?

Mr. Duffett: It is difficult to give a single answer to this, because in different areas different methods are pursued. In the monthly labour force survey, for example, it is possible by mathematical means to calculate quite accurately the degree of error. This is a sample survey and in a well planned, well organized sample survey, it is possible to calculate what the degree of error is. In the case of the population census there is an investigation made concurrently with the census of the degree of under-enumeration. This is one of the main sources of error. The degree of under-enumeration, I think, is of the order of 2 or 3 per cent.

Mr. Ballard: Then, when you report, for example, population statistics, do you add 2 or 3 per cent to the report that you make?

Mr. Duffett: No, we do not. We produce an administrative report on the operation of the census in which all possible information is given about the extent of the error, but the census figures are not adjusted, if only because the census has some important legal functions to perform, and it is important that the information should be published exactly as taken.

Mr. Ballard: When you were speaking you also made reference to doing some statistical work from corporation income tax returns. By that would you clarify as to whether you mean that the statistical work is done from the Corporations and Labour Unions Returns Act or do you actually draw the files from the Department of National Revenue and do your statistical work from the latter information?

Mr. Duffett: Prior to 1965 we got reports directly from the firms, similar to those which were being sent to the Department of National Revenue. It appeared to us and to a large number of people that this was unnecessary duplication. An amendment was provided to the Corporations and Labour Unions Returns Act which makes it possible for us to receive these forms as they pass from the National Revenue regional offices to headquarters in Ottawa.

Mr. Ballard: In other words, the corporation income tax returns are in effect funnelled through your Department and examined by your Department on their way to the Department of National Revenue.

Mr. Duffett: It is my understanding that these forms are prepared in duplicate and that one copy is kept in the field and the other one, which is designed for less immedi-

ate work at headquarters in National Revenue, passes through the Bureau of Statistics on its way to National Revenue, so that it does not delay the work which National Revenue needs to do with this material.

Mr. Ballard: It appears now that corporation income tax returns are not a matter of secrecy between the taxpayer and the Department of National Revenue. It is obvious that your Department sees them and the Department of National Health and Welfare has an opportunity to see them. Do you know of any other department that also sees them?

Mr. Duffett: I was not aware that the Department of National Health and Welfare saw them. Mr. Benson is in the audience and may wish to comment on this.

Mr. Ballard: I will probably be putting the question to him.

The Chairman: When he testifies before us on his own estimates.

Mr. Duffett: There was some interest, needless to say, in this matter of secrecy when the Corporations and Labour Unions Returns Act was changed. It was pointed out by officials of the Department of National Revenue that the secrecy provisions of the Bureau of Statistics are at least as rigorous as those of the Department of National Revenue and that therefore the returns would be very carefully safeguarded. I would like you sometime to visit the Bureau of Statistics and see the way in which we file these forms. Within the Bureau of Statistics we have very careful security regulations. In addition, however, we have built a very large cage within the office of the Corporations and Labour Unions Returns Act in which this material is locked up every night.

The Chairman: You do not keep any of the officials in there, do you?

Mr. Duffett: Not locked in.

Mr. Ballard: Mr. Duffett, I assume from what you say that the employees of your Department take a similar Oath of Secrecy to that taken by the Department of National Revenue.

Mr. Duffett: They take an Oath of Secrecy. I assume it is not very different. It should be emphasized, of course, that we had access to this information before the modification to the Act. The amendment to the Act just simplified matters from the point of view of the respondent. Under the Corporations and Labour Unions Returns Act exactly this in-

formation was reaching the Bureau beforehand.

Mr. Ballard: This veil of secrecy which I assumed existed has really been a myth.

Mr. Duffett: No, I would disagree. The veil of secrecy is exactly as it was before.

Mr. Ballard: Just as a matter of interest I notice on page 76 that you report some revenue in your Department—revenue to the extent of \$160,000. It surprises me that your Department would have any revenue at all. Could you just give me an indication of where this money comes from?

Mr. Duffett: Yes, Mr. Allen can answer this question.

Mr. Allen: This is largely the sale of special services. For some particular kinds of jobs for one individual we will charge the marginal cost of producing that particular service. These services might include special tabulations of trade statistics, perhaps special tabulations of census material that somebody wants, material not quite in the way that we have published it which we rearrange and feel we should charge for rather than have the tax payer bear the burden. It is a small amount. We sell a considerable number of publications but the revenue from these goes to the Queen's Printer, not to us.

Mr. Ballard: There is no revenue included in this figure from other government departments or other government appointed agencies, such as the Economic Council.

Mr. Allen: They may pay us but that is not what this is.

Mr. McLean (Charlotte): Do you supply information to other government departments?

Mr. Duffett: We supply information to other government departments on very much the same basis as we supply information to the public at large. The secrecy provisions of the Act, of course, apply.

Mr. McLean (Charlotte): The government is establishing new departments all the time and enlarging old departments. Does this mean that you are supplying more information?

Mr. Duffett: This is true.

Mr. McLean (Charlotte): If the government is creating new departments and enlarging the old departments I would naturally think that if you were going to supply information you would have to enlarge your Department.

Mr. Duffett: This has been a major reason.

Mr. McLean (Charlotte): I notice that in private industry they always tell me that the government is asking for more returns and that they have to put in more machines. Of course, these machines are going to cut down on labour but they find that they increase labour all the time because they do not have anybody to run them. They have to get new people to run them. That is why they find their staffs increasing all the time. I wonder if you find this in much the same way in your Department?

Mr. Duffett: New government departments and the enlargement of government departments certainly have made a very great difference to us in recent years in the sort of information that we are called upon to provide. To some extent this takes the form of additional surveys. To a great extent it takes the form, as I mentioned earlier, of greater precision and greater detail for the amount of information that is provided. Ten or fifteen years ago, in many areas, we could provide enough information to describe in general terms what was going on but when a new agency comes into operation, very often it requires far more detail, far more precision, to be sure that it is making the right decisions. This is a major element in the growth that has taken place in recent years.

Mr. McLean (Charlotte): I often think that some of the departments are not taking enough advantage of your Department, especially in designated areas.

The Chairman: Perhaps the departments in question will take that as a reminder.

We seem to have exhausted our list of questioners. Before calling the item, there is one matter I would like to deal with very briefly.

I discovered, and some others may be aware of this, that the Joint Economic Committee of the Congress of the United States publishes a very interesting document every month called Economic Indicators. I might explain in passing that the United States Congress has a Joint Committee of its House and Senate. Of course, its Senate is accountable to the public as it is elected and this Committee, backed by a permanent staff of economists and administrative people, has as its basic task the studying of the Annual Report of the Council of Economic Advisers which in some ways is similar to our Economic Council. It also carries out other general studies of economic matters. The reason I mention this at this time is that this document puts together in a very clear and handy

form each month details of the major economic indicators in a way that mere laymen such as ourselves could grasp very easily. Some of you may have seen this publication before. It has national income, for example, average weekly, the earnings with charts, and they summarize at the head of each page the results of the month in one simple sentence which, as I say, people like myself can grasp very easily. In fairness to the DBS, the monthly publication *Canadian Statistical Review* does something like this in the first ten or twelve pages. I mention this not only to draw this publication to the attention of the Committee but to ask Mr. Duffett whether it would be possible to revamp in some way the format of the first part of the *Canadian Statistical Review* so as to make the same type of information as is found in the publication *Economic Indicators* more easily available to people like ourselves and members of the public generally who are interested in this information.

Can you comment on this, Mr. Duffett?

Mr. Duffett: Yes, this is a good suggestion, Mr. Chairman. As you have said, we do include quite a number of charts of deseasonalized economic indicators with a very brief statement at the top. It may well be that the statements are unduly brief and that more of an analytical nature might be included.

The Chairman: Also, the selection of items and their organization is done in a way which at least I find easier to follow on many occasions than in your own publication.

Mr. Duffett: We would be glad to look into this.

The Chairman: One other thing that I noticed, although I have not analyzed all the tables, is that in some instances the information appears to be somewhat more up to date. Not in all cases; in some cases your publication is more up to date, but in other instances the U.S. publication is more up to date than the Canadian counterpart. Could you comment on this?

Mr. Duffett: Yes. This is a fact in many areas. It concerns us very much. This is of particular concern to Dr. Simon Goldberg, Assistant Dominion Statistician, and if you wish, he will say a word or two about our program in the field of timeliness.

The Chairman: Perhaps I could ask Dr. Goldberg to comment briefly. I do not want to impose on the Committee but if we are going to have the statistics we might as well have them as timely and up to date as possible.

Dr. S. A. Goldberg (Assistant Dominion Statistician (Statistical Integration)): Thank you, Mr. Chairman. We do, indeed, have a comprehensive program for quickening the outflow of our information. I hope that in a year from now if I am called upon to do so I shall be able to cite some achievements. Right now I must confine myself to some achievements, but pretty firm ones, I think. Within this program we have selected a number of key indicators—key in the sense that they reflect the movement of the economy most faithfully and most quickly, such as, for example, the Index of Industrial Production—and we give them prime attention. It is our target to reduce the time interval which we now take to produce the index by approximately one half in the course of two years, and to do so in two stages. The first stage, I hope, as I implied at the outset, we will have accomplished by the end of the fiscal year. At present, there is a time lapse of nine weeks between publication of the index and the period to which it refers. We hope to slice off at least two weeks by the end of this fiscal year. Following this, we hope to slice off another two weeks by converting more of our information to the electronic computer. I should add that by reducing the time interval of the index we in effect have to reduce the time interval of a great deal of information which feeds into the index; a lot of information on monthly employment, payrolls, man-hours, commodities, and so on. This is really a big program. We hope to achieve this in the first instance, as I said, using present procedures by experimenting with provisional estimates based on incomplete returns and developing methods for estimating the remainder with sufficient accuracy to justify using them for the index. I am singling out the index because this is one of the most sensitive areas but we are going farther afield in other series and eventually we hope to push up a large portion of where we are behind.

The Chairman: Thank you, Dr. Goldberg. I gathered that the—

Mr. Flemming: May I ask one question of Dr. Goldberg. Speaking of economic indicators, what is the earliest time in which business could determine whether inventories are increasing or decreasing or what is happening to them insofar as the Dominion Bureau of Statistics is concerned?

Dr. Goldberg: If you refer to overall inventory, these indicators are included in our Quarterly National Accounts and come out

about two and a half months after the quarter; so to get a comprehensive picture right now, you would have to wait about two and a half months.

Mr. Mackasey: Are the statistics of certain industries available sooner?

Dr. Goldberg: Yes. As a matter of fact, not only industries but various statistics are available at different time intervals. For example, our price indexes are available one month after the event. The employment and unemployment data are available one month after the event, and in many cases in the manufacturing field we have monthly commodity data which are available five or six weeks after the event. In other cases it takes longer.

Mr. Mackasey: I am thinking of pulp and paper, for instance, where you have so few firms. Are the statistics in that case fairly rapid?

Dr. Goldberg: I will ask Mr. Berlinguette, who is in charge of this.

Mr. Berlinguette: I am not quite sure just what the exact timing of the pulp and paper industry is, but it is possible that if the information is complete before the report is published, we could provide the information in a special release, if it is of special interest.

• (12:30 p.m.)

Mr. Duffett: Would you care to comment on your monthly inventory series? I think the question related not only to comprehensive inventories but inventories of particular firms.

Mr. Berlinguette: In the case of manufacturing, I think Mr. Goldberg mentioned we have a monthly survey of inventories and shipments and the timing on that right now is between five and six weeks. That is the total. As I mentioned, if there is a special interest in some industry and it is available for that date we can arrange to have it published separately in a daily bulletin.

The Chairman: Of course, the significance of this discussion of timeliness is that if the information is not sufficiently timely we may find governments making policy decisions based on data that does not reflect the actual situation. This is one of the key points involved and I think this was commented upon by the Economic Council in the preceding reports. I am interested to hear that you work in this area.

Also, I gather you will be looking at the other point I raised about either revamping

the first part of *The Statistical Review* or possibly having another publication to bring together in handy, clear-cut form the major economic indicators, somewhat in the manner used by the Council of Economic Advisers in the Joint Economic Committee of the United States with its publication entitled *Economic Indicators*.

Mr. Duffett: Yes, we will.

Mr. Clermont: Mr. Chairman, under Vote 1 on page 76, I note an increase in Office Stationery, Supplies and Equipment of \$630,000 from 1966-67, and also on the same page an increase of \$217,900 for Rental of Office Equipment. Is the first increase of \$630,000 mostly for equipment, stationery or supplies?

Mr. Allen: There are several items. Approximately a third of that amount is a furniture item which used to be carried in the Department of Public Works but is now carried in the individual department's business. There is about \$80,000 for new calculators and adding machines, and the replacement of old ones. There is over \$120,000 worth of computer tapes. Where the computer is applicable material is now stored on tapes rather than on work sheets and this is increasing. The cost of printing forms is up about \$50,000. I think that takes care of most of that. Concerning Rental of Office Equipment, the increase is mostly for computer facility.

The Chairman: This equipment is usually rented rather than purchased from the manufacturer.

Mr. Allen: That is right. We have both in our operations.

The Chairman: Before asking whether the Item shall carry, may I suggest to the Committee that in considering our program for the next sitting we look into the possibility of visiting the Dominion Bureau of Statistics to see the actual methods followed by them in gathering all this information.

Mr. Duffett: You are very welcome.

The Chairman: Perhaps the Clerk might make a note of this for future consideration. Shall Item No. 1 carry?

Some hon. Members: Agreed.

Item No. 1 agreed to.

The Chairman: Shall I report the Estimates of the Department of Trade and Commerce, including the Dominion Bureau of Statistics?

Some hon. Members: Agreed.

The Chairman: Gentlemen, before leaving this item, and this may have been dealt with last week, I suggest that we give some consideration to asking for an Order of Reference through the House to permit us to hold hearings on the implications of the tariff changes for Canadian industry and labour under the Kennedy Round. I do not know whether you want to consider having this included as a recommendation in our report to the House, or merely to deal with it informally when we plan our session for the fall.

Mr. Lamberg: In that connection, Mr. Chairman, I think that as the Minister had to leave so many answers dangling in the air because they were based upon information which will come out only at the end of the month, this Committee should keep a string on that type of information so that we can go back to it. If we do not get an appropriate reference we will be barred from considering it.

The Chairman: In fairness to the Minister, when I raised this point at the hearing he said that he was very willing to have this type of consideration carried out. I gathered from his comments, and I believe Mr. Cantin can support me, that he would not be averse to our asking the House to give us an Order of Reference to deal with this specific issue because the details are not available at this time.

Mr. McLean (Charlotte): Mr. Chairman, I do not think the tariffs are finalized yet.

The Chairman: That is what I mean. That is why I say since this will not come up until July 1, and I think the Minister agreed with me in this, that it would be useful to have an Order of Reference of the House to hold hearings on this subject which is very important to the entire country.

Mr. Cantin: I think you are right, Mr. Chairman. The Minister made this statement when he was here last week.

The Chairman: Yes. Shall we make a recommendation in our report that we be given an Order of Reference to hold hearings on this subject?

Some hon. Members: Agreed.

The Chairman: I thank you, Mr. Duffett, and your colleagues for a most useful and informative discussion. You are now excused.

I now ask the Minister of National Revenue and his officials to come forward and we can begin our consideration of the Estimates of the Department of National Revenue.

As a formality, I will call Item No. 1.

1. General Administration, Operation and Maintenance including authority, notwithstanding the Financial Administration Act, to spend revenue received during the year from firms and individuals requiring special services, \$59,720,000.

Our first witness is the Minister of National Revenue. I believe he has an introductory statement. Following the usual practice, after he makes his statement the meeting will be open for questions and discussion. Of course, he may call upon his officials if he so desires to deal with specific questions even though he is present. After we have dealt generally with this, we will stand Item 1 and proceed to the specific votes.

Since the Department has two basic divisions I will ask the Minister whether he intends to deal with them both in one statement or to do so in two stages.

• (12:40 p.m.)

Hon. E. J. Benson (Minister of National Revenue): Mr. Chairman and gentlemen, as most of you realize the Department of National Revenue really consists of two departments. They are called divisions of the Department. Each is headed by a deputy minister. On one side we have the Customs and Excise Division and on the other the Taxation Division. They operate quite separately and have completely different functions. With the indulgence of the Committee, I propose to deal with the Customs and Excise Division first and make a statement in this regard. My Deputy Minister and several other officials from the Customs and Excise side of the Department are here and perhaps we could complete this particular matter and then move to the Taxation Division, which is the other side of the Department.

The Chairman: I presume this will meet with the agreement of the Committee. Please proceed, Mr. Benson.

Mr. Benson: I have a preliminary statement to make and then I would be pleased to answer questions on policy matters and refer other questions to my officials. If the questioning is going to take place over a long period of time I request permission of the Committee, after Vote 1 is stood, to have my officials deal with the individual matters of which they have more knowledge than I. Then I would come back and answer any policy questions which have been stood on Vote 1.

The Chairman: We have followed this practice on other occasions.

Mr. Benson: I think the members of this Committee are familiar for the most part with the Customs and Excise program for the administration of which in 1967-68 funds in the amount of \$59,720,000 are required as itemized in Vote 1.

It might be useful, however, if I were to outline briefly the objectives of this program and then touch on what the Department is planning and doing with the aim of achieving its objectives as efficiently and economically as possible.

Customs and Excise has as its primary objective the administration and enforcement of the Customs Act, Customs Tariff Act, Excise Tax Act and the Excise Act, involving the assessment, collection and control of duties and taxes on imported and domestically produced goods, the control of international movement of goods and persons, and the prevention of smuggling, undervaluation of goods and other fraudulent or evasive practices involving customs and excise revenue.

Within this main objective are secondary objectives, namely:

- to assist other departments and agencies of the federal government in the enforcement of some forty statutes affecting the international movement of goods and persons;
- to ensure to Canadian industry the protection to which it is entitled under the Customs laws;
- to develop more efficient and effective methods of collecting revenue; and
- to reduce the cost and inconvenience to the taxpayer of compliance with the Customs and Excise laws.

The work of Customs and Excise is carried out, in addition to headquarters activities, at over 500 ports of entry and field offices across the country, with an over-all establishment of 8,760 man years, including 142 casuals. Also included are the appraisers and support staff stationed at posts abroad, in London, New York, Chicago, Brussels and Tokyo.

While I think it can fairly be said that the record of Customs and Excise for keeping increases in operating costs down to minimal levels has been good, despite the pressures of rising salary and other costs and an ever-increasing workload, the Department has continued to seek more efficient and economic ways of carrying out the tasks referred to above without reduction of necessary services to the importer, the taxpayer or the public in general. We have been consciously seeking

better methods of communicating with our clientele, of making available to the taxpayer reliable and timely information aimed at assisting him to comply with the law in as convenient a manner as possible.

We have taken steps towards implementing in the Department the new principles and practices of financial and personnel management as proposed by the Glassco Commission and approved by government for implementation. Departmental planning and preparation are well advanced with respect to collective bargaining and the processing of grievances. We are pursuing a carefully planned program of decentralizing decision-making to management levels at or closer to the places where the day-to-day business of clearing goods and collecting duties and taxes is actually being transacted.

All of this is at bottom of the plan of reorganization of Customs and Excise as approved by Treasury Board in May last year, and the requirements for which are in part reflected in the Estimates now before you. Briefly, the plan calls for decentralization of the Department's operations within a regional organization comprising six regions, twenty-two customs districts, and thirty-five excise tax districts. The first, or pilot region, Southwestern Ontario, has been operating since last September. Additional regions will open this year, probably in early September, and in 1968 it is planned to complete the regionalization program.

Despite some initially and unavoidably higher expenditures entailed in putting this decentralization plan into operation, the Department is confident that the long-term results, from the standpoint among others, of operational efficiency and service to the taxpayer, will more than justify the additional costs incurred in getting the program under way.

Our financial and personnel requirements for 1967-68 indicate an estimated increase of \$3.42 million or 6.1% over 1966-67. Of this increase \$2.7 million or 80% represents increased salary costs. General salary revisions and pay adjustments resulting from the classification revision program represent a large proportion of this increase, the remainder being accounted for by the establishment of a number of new positions required as a result of the regional reorganization.

In the area of expenditures for other than salaries, particularly as regards such items as training and management development, travel and removal expenses, there has been some

increase because of the Department's efforts to implement government approved proposals of the Glassco Commission in the fields of financial and personnel management, and to organize and prepare for collective bargaining and the processing of grievances.

Additional salary expenditures reflect also a somewhat improved situation as regards the appointment of Excise Tax Auditors and Dominion Customs Appraisers. That we are having some success in bringing these two groups closer to full strength is cause for some satisfaction, especially in the light of the steady increases and constant backlogs that have characterized the workloads in these two areas.

In 1966-67 the total of manufacturers and wholesalers under sales tax licence was 53,865. Increased licensing activity, one of the anticipated direct benefits of regionalization, is expected to result in an increase of between a thousand and eleven hundred new licensees in 1967-68.

Import and export entries and border traffic figures are fair indicators of the customs operational workload. In 1965-66 import entries totalled 6.8 million and in 1966-67, 6.6 million. There were 1.9 million export entries in 1965-66 and 2 million in 1966-67.

I have some figures here with regard to vehicles, foreign travellers and Canadian residents, comparing 1965-66 with 1966-67, and the increase in thousands is as follows:

	1965/66 000's	1966/67	Increase
U.S. and Canadian Vehicles Entering Canada	22,140	23,238	1,098
Foreign Travellers Entering Canada	34,201	35,588	1,387
Canadian Residents Returning	33,817	34,944	1,127

On the subject of operations and operational improvements, the Committee may be interested to learn that the Department, with the aim of facilitating clearance of the ever-growing volume of highway passenger vehicles at border ports of entry, as of last March stopped issuing travellers' vehicle permits to non-resident car owners. Also, at the Toronto and Montreal international airports we have introduced a new streamlined system for examining and clearing air passengers' baggage. Both of these measures will do much to expedite the entry of visitors to Canada and are of special significance during Centennial and

Expo year. With the latter measure we are looking ahead to the travel of the super-jet airliner, where large numbers of passengers will be coming into the international airports at a single moment and we will have to have the fastest possible method of clearing them through customs.

Members of the Committee may find of interest a word or two on the subject of opening and closing customs ports of entry. The Department finds itself subjected to several kinds of external pressure in this respect; pressure to close certain ports in the interest of economy,—and this has been referred to me by the Auditor General several times—pressure to open additional ports and pressure to extend the range of service being provided at certain ports. Needless to say, a decision to open or close a port of entry cannot rest solely on grounds of economy or on how much revenue a given port produces. Many seaboard or border ports, some of fair size, could be closed if the amount of revenue they produce in relation to their operating costs were the only criterion by which to judge their usefulness. But members are well aware that revenue production is only one part of the customs role and responsibility. The needs for service vary from community to community. I have already mentioned the part customs plays in the enforcement of a large number of other federal statutes. In the final analysis the Minister must decide whether to recommend to the Governor in Council the opening or closing of a port of entry, and such a decision is made only after careful analysis of the pros and cons of any given situation.

While certainly of significance in reaching such a decision, the simple question of operational efficiency and economy is but one of the factors involved. Above all must be the assurance that there will be no reduction of essential service and no undue inconvenience to importers and exporters by the closing of a port of entry. Equally important, however, is the need for examining critically any request for the extension of customs service by the opening of a new port when such service can conveniently be provided to importers and others at nearby existing ports or offices.

Since our main reason for existence is to collect customs and excise revenue, the Committee may be interested in a few revenue figures for consideration in the light of the Estimates figures that represent the cost of collecting such revenue. Customs and excise revenue in 1966-67 of \$3.069 billions, ex-

clusive of credit to the old age security fund—that is, exclusive of the old age security fund taxes—represented 37% of total budgetary revenue for that year of \$8.366 billions. This customs and excise revenue was made up as follows:

	\$000's
Customs duty	\$ 777,586
Sales Tax	1,513,081
Other excise taxes	315,581
Excise duty	460,980
Sundry collections	2,080
Total	\$3,069,307

Projected customs and excise revenue for 1967-68 totals \$3.3 billions, an increase of 7% over the year just ended.

I hope this bit of background information may prove helpful in your consideration of these Estimates. My officials and I are at your disposal and will be glad to supply any details you require or attempt to answer any questions you may wish to ask.

The Chairman: Thank you, Mr. Benson. The first name on my list is Mr. Mackasey.

Mr. Mackasey: Mr. Chairman, I have only one question, a rather insignificant one. I hope people realize that in view of the fact that it is ten minutes before one o'clock I do not want to get into a discussion of the general statement made by the Minister.

He did mention, of course, the increased flow of traffic going through such international ports as Montreal. Having come back just yesterday from a trip to Europe, I appreciated—this is not new—the distribution of declaration forms within the airplanes. The form is concise, neat, and with one exception people like myself can follow it. I was wondering whether one area could not be improved upon. In one place the form reads: If you have claimed under such and such a number during the last four months, or if you have claimed under another number during the last 12 months.

Now, nobody in the airplane knows what the number means. I do not know, and I just filled it out. I do not know whether any of you gentlemen have that form with you. Did you bring a book of samples? No, you have nothing to sell I see. If the four months refers, for instance, to tobacco and spirits, then it would be so much better to say so rather than to put down a number, because many of the people coming into Canada are not Canadians.

Mr. Benson: Well, there are two exemptions. I have had as much trouble with that form as anyone else coming back into the country. We have been looking at the form for some time to try to find an easier way of doing it. There are two exemptions. One allows you \$25 every four months which you can claim only after a four-month period has elapsed. It is non-cumulative so you cannot claim two in six months and none for the rest of the year.

The other is the \$75 exemption if you are outside the country for more than seven days.

Mr. Mackasey: Is it \$75 or \$100?

Mr. Benson: It is \$75, but you can claim \$100 coming back if you have not claimed \$25 in the last four months.

Mr. Mackasey: Well, as I say, when there are 125 people on a plane, many of whom are coming into the country for the first time as well as many Canadians who are returning to Canada for the first time, it is impossible for them to figure this out. Consequently, too many people ignore the form until they get to the border point where the customs officer just has to explain it, or they try to get the information from the stewardess.

As a suggestion in the meantime until you come up with another form, you might at least place at the disposal of the personnel of incoming flights an explanatory brochure or sheet, because until you explained it I did not understand.

Mr. Benson: We have a booklet which explains it quite fully, but I have found that it is never handed out on an aircraft. It would be useful if we attached these booklets to the forms.

Mr. Mackasey: I know I am spending a lot of time on this but it is a very important point, especially since you have gone to such tremendous lengths to clear the flow of people coming in through the big ports of Montreal and Toronto.

The Chairman: I think Mr. Mackasey's suggestion is very constructive. We have all run into this and if the Taxation Division can attach detailed instructions to the income tax form the question immediately arises of why you can not do the same with the declaration form.

Mr. Mackasey: Well, having analysed the form very carefully and knowing a little about printing, I realize there is a lot of information in a small form, particularly in

view of the fact that it must be, and should be, bilingual. Nevertheless, these two areas are extremely ambiguous and defeat the whole purpose, I think, of trying to prepare the form on the airplane. Consequently people give up, get panicky, they approach your officers with a degree of apprehension, or simply go up and say, "Well, fill it out for me", which defeats the whole concept of the flow through the customs. There must be some answer to this.

Mr. Benson: We can put an explanation of the two tariff items either on a separate sheet attached to the form or as I was thinking just a moment ago, why do we not print it on the back of the form?

An hon. Member: It is on the back of the form.

Mr. Benson: It is already on the back of the form, I am told.

The Chairman: It is not very clear.

Mr. Mackasey: Then please put a note at the bottom of the front of the form that if there are any questions regarding this an explanation is on the back, because most printing on the back is a very dull grey, if I recall business forms; it has to be.

Mr. Benson: It is a very good point, and we will certainly look into it.

The Chairman: Is it the wish of the Committee to go on past one o'clock? Mr. Ballard?

Mr. Ballard: Mr. Chairman, I have just one question, and it more or less follows from what Mr. Mackasey has said. I am sure that he was trying to facilitate the entry of visitors to Canada. I am wondering whether the Department has given any consideration to the elimination of customs examination and collection of customs duty for passenger vehicle traffic coming across the border, or returning to Canada from across the border. I have no idea how much duty is collected from tourists returning from abroad, or tourists coming into Canada, but I think if it is not too much it might be a good idea for the Department to give some consideration to cancelling the collection entirely.

Mr. Benson: One of the difficulties we have is to enforce the customs law as it is written. Now, we do not bother very much with American cars coming into Canada; we do not even examine them as a matter of fact, unless the people coming in have cottages here and who might be bringing things in. But it is a very cursory examination of American cars coming into Canada.

We do have to look at Canadian cars coming into Canada, because one of the easiest ways to smuggle into Canada is from the United States. We do this on a test basis and we try to facilitate it just as much as we can. We used to have to stop all American foreign cars and hand them an E-50 which the Deputy Minister and I watched in operation a few times, and we got rid of that, so we do not stop the American cars at all for this anymore. When they go out we do not stop them for this reason either any more; we do not have to stop American cars.

I think we would get very severe criticism if we did not carry out in the manner we do a search of cars coming into the country, which I think is fairly efficient in picking up large violators of the Custom Tariff Act.

Mr. Ballard: Is the prime object in stopping Canadian cars returning to Canada, even on a sample basis, the collection of duty or because of the possibility of finding contraband material?

Mr. Benson: Both tasks are assigned to us. My Department, as an administrative department, has the duty under the law to collect tariffs and it also has the duty to prevent smuggling. We just have to do it.

Mr. Ballard: Can you tell me approximately how much revenue is derived at border points from the examining and charging of customs duty to occupants of passenger vehicles?

• (1:00 p.m.)

Mr. Benson: I do not know whether we have that information for passenger vehicles. We can tell you how much is collected at border points but, of course, a lot of this is commercial as well, because we stop commercial vehicles coming across.

Mr. Ballard: I was wondering if there is a possibility of differentiating between commercial vehicles and passenger vehicles.

Mr. Benson: This would be fine if the commercial vehicles did not start carrying the stuff being brought in in cars.

The Chairman: Also how do you draw a distinction between people walking across and going across in a bus? Also I think the present law prohibits the import of used cars from abroad.

Mr. Benson: We have a system with the provinces.

The Chairman: Yes.

Mr. Benson: That is why we were able to get rid of the E50. All of the provinces now require that when you register a foreign vehicle not licenced in that province in the previous year you have to show proof of where you bought it. They immediately inform our officers and we, of course, check to see whether the duty has been paid on it.

Mr. Labarge: We should remember the reason for this tariff is to protect people who are in business in Canada. Most of the population is stretched across Canada in a fairly narrow belt and the merchants in the neighbouring communities have always complained about any kind of exemption, let alone a total exemption. So I think this is a major issue for Canadians who are in business, particularly retail business.

The Chairman: Gentlemen, do you wish to proceed beyond one o'clock or recess until next Thursday? I might mention before we adjourn that the Minister will have his staff duplicate copies of his statement for us.

Mr. Mackasey: Perhaps, Mr. Chairman, we could finish dealing with the Customs and Excise Item before we go.

The Chairman: Other members who have left might expect Mr. Benson to be available for discussions of the Customs and Excise Item next Thursday.

Mr. Benson: If you wish, if there are no more questions from the people here, we could leave the Customs and Excise Item open and proceed next Thursday with Taxation. We could then come back to Customs and Excise if there are further questions.

The Chairman: We could do that.

Mr. Benson: There is only one item left.

The Chairman: I wish to pursue this matter of customs ports a bit myself but I do not want to detain the Committee. I suggest that in the interim you could make copies of your statement available for us.

We are now adjourned until next Thursday at 11 o'clock.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

THURSDAY, JUNE 22, 1967

RESPECTING

Main Estimates, 1967-68, Department of National Revenue

INCLUDING APPENDICES A and B

The Honourable E. J. Benson, Minister of National Revenue

and

WITNESSES:

From the Department of National Revenue, Customs and Excise Division:
Messrs. R. C. Labarge, Deputy Minister; J. G. Howell, Assistant Deputy Minister (Operations); and G. L. Bennett; Assistant Deputy Minister (Excise); *Taxation Division:* Messrs. D. H. Sheppard, Deputy Minister; D. J. Costello, Comptroller.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Johnston,	Monteith,
<i>Cowichan-The Islands</i>),	Laflamme,	More (<i>Regina City</i>),
Cantin,	Lambert,	Noël,
Comtois,	Latulippe,	Tremblay (<i>Matapedia-</i>
Flemming,	Lind,	<i>Matane</i>),
Fulton,	Macdonald (<i>Rosedale</i>),	Valade,
Gilbert,	Mackasey,	Wahn—(24).

Dorothy F. Ballantine.
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, June 21, 1967.

Ordered,—That the name of Mr. Johnston be substituted for that of Mr. Leboe on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, June 22, 1967.

(6)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Cantin, Clermont, Flemming, Gilbert, Gray, Laflamme, Lambert, Latulippe, Lind, McLean (*Charlotte*), Monteith, Noël—(13).

In attendance: The Hon. E. J. Benson, Minister of National Revenue.

From the Department of National, Revenue, Customs and Excise Division: Messrs. R. C. Labarge, Deputy Minister; J. G. Howell, Assistant Deputy Minister (Operations); G. L. Bennett, Assistant Deputy Minister (Excise); A. Cumming, Chief, Financial Planning and Development; A. R. Hind, Assistant Deputy Minister (Customs); J. W. Langford, Director, Financial and Manpower Services; J. P. Connell, Director, Personnel Administration; S. L. Allen, Director, Financial Administration. *Taxation Division:* D. H. Sheppard, Deputy Minister; D. J. Costello, Comptroller; J. F. Harmer, Assistant Director, Assessments Branch; R. S. Gunn, Supervisor, Financial Services Section; M. S. Sprott, Assistant Director, Planning and Development; W. I. Linton, Administrator, Estate Tax; J. R. Morrissey, Supervisor, Programmes and Procedures; J. A. McKerchar, Assistant Administrator, Canada Pension Plan.

The Committee resumed consideration of Item I of the Main Estimates, 1967-68, of the Department of National Revenue.

The Minister tabled a paper entitled *Comparative Statement of Customs and Excise Revenue* and, on motion of Mr. Laflamme, seconded by Mr. Clermont, the statement was ordered to be printed as an Appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix A.*)

Questioning of the Minister was resumed. He was assisted in answering questions by Messrs. Labarge, Howell and Bennett.

Item 1 was carried.

The Chairman thanked the officials of the Customs and Excise Division, who then withdrew.

Officials of the Taxation Division were called, and the Chairman called Item 5:

Taxation—General Administration and District Offices including recoverable expenditures on behalf of the Canada Pension Plan \$57,833,900.

The Minister made a statement concerning the operations of this Division of his Department and also tabled organization charts and a table entitled *Revenues, Cost of Collection, Staff Employed and Returns Filed, Fiscal Years 1947-1967*.

On motion of Mr. Lambert, seconded by Mr. Lind, it was

Ordered,—That the charts tabled by the Minister be included as an Appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix B*).

The Minister was questioned. He was assisted in answering by Messrs. Sheppard and Costello.

The questioning continuing, at 1:05 p.m., the Committee adjourned until Tuesday, June 27, 1967, at 11:00 a.m.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

Recorded by Electronic Apparatus

Thursday, June 22, 1967.

The Chairman: Would the meeting please come to order. We will resume our consideration of the Main Estimates of the Department of National Revenue. When we recessed on Tuesday we had just finished hearing a statement from the Minister on the Customs and Excise wing of his department. The Minister referred to a table entitled Comparative Statement of Customs and Excise Revenue and I will ask the clerk to distribute copies of it. I think there is some interest in having this table printed as an appendix to our Minutes of Proceedings. Can I have a formal motion to incorporate this table?

Mr. Laflamme: I so move.

Mr. Clermont: I second the motion.

Motion agreed to.

The Chairman: We have heard from the Minister. A copy of his statement has been distributed. We are now open for discussions with the Minister and questions with respect to this wing, if I may put it that way, of his Department. Mr. Clermont?

(Translation)

● (11.10 a.m.)

Mr. Clermont: Mr. Chairman, in his statement last Tuesday, the Minister mentioned that his Customs and Excise staff numbered 8,760 persons. Of this number 142 are employed in casual positions. What is the duration of the period of employment of this temporary staff?

(English)

Hon. E. J. Benson (Minister, Department of National Revenue): The period of employment of the casuals varies. Of course the larger number of them would be—

Mr. Clermont: I meant the average, Mr. Minister.

Mr. Benson: I would guess the average would be about six months, the largest number in the summer season mainly.

Mr. Clermont: Among your 8,760 employees you have what you call appraiser and support statisticians at posts abroad in London, New York, Chicago, Brussels and Tokyo. How many of these appraisers and support staff are in foreign countries?

Mr. Benson: A very small number, I am told—eleven persons.

(Translation)

Mr. Clermont: I notice, Mr. Minister, on page 372 of Proceedings No. 1 of the Standing Committee on Finance, Trade and Economic Affairs, under the heading of "General Administration", that the staff has increased by 68 persons for a sum of \$1,440,000, in comparison with the other service—"Customs and Excise"—where we notice an increase of 277 persons for a sum of \$1,643,000. You have an increase of \$1,440,000 for an addition of 68 staff members, yet in another service, the amount required is only \$1,643,000 for an increase of 277 persons. In short, you have a difference of only \$200,000 in cash—and that for over 200 persons.

Mr. R.-C. Labarge (Assistant Deputy Minister, Department of National Revenue): Would you please repeat the names of the two services which you are comparing, Mr. Clermont?

Mr. Clermont: Under Vote 1, "Administration". In Administration the personnel increased by 68 persons and the total increase in salaries was \$1,440,000; and under the heading "Customs and Excise" the personnel increased by 277 persons for a total sum of \$1,643,000.

Mr. Labarge: Those are two services which, basically, require more professional skills in the one case than in the other. For instance, in Administration you have the employees you meet when you visit the ports and different offices. Then you have appraisers in the service which we call Customs, and these are essentially people from Head Office. They are all university graduates with professional ability. And our staff in the various ports are also people with the highest qualifications on account of their ability.

Mr. Clermont: Mr. Minister, on page 372 of Proceedings No. 1, I see that for 1967-1968 the estimates under the heading of Travelling and Removal Expenses are \$624,000 as compared to \$300,000 for 1966-1967.

Mr. Labarge: Which makes a difference of \$492,000, doesn't it?

Mr. Clermont: No. On page 372 the difference is \$324,000 for travelling and removal expenses. Will the increase of \$324 thousand go mainly to travelling and removal expenses?

Mr. Labarge: Yes. Last year we created our first region in which we are going to decentralize the authority and responsibility of the Department. This required, firstly, the setting up of these offices and a change of personnel, especially in the higher grades; we have had to send senior officers, accompanied by their families, to fill these posts, etc.

Then we introduced a program of instruction and training for the people who today have to shoulder the financial and budgetary responsibilities in small ports and district ports and, finally, in the region. These people have to take courses lasting sometimes three weeks or a month, and that involves a great deal of travelling.

Mr. Clermont: About this decentralization of the administration of your Department, Mr. Minister, I believe that the first experiment has been carried out in southwestern Ontario and that it is your intention to continue this process in 1967-1968? Have the experiments in this pilot-region been successful?

(English)

Mr. Benson: We believe, the pilot program has been very successful in that people in the particular region, London, southwestern Ontario, where we started, have found, I believe, that it is much more convenient to get decisions there rather than having to send to Ottawa for them. We believe that to date, certainly in the field of relationship with the taxpayer and the importers, it has been quite successful and it is our intention to proceed this year with one more opening in Vancouver. In the coming year we will open two, at Vancouver and Toronto and then in 1968-69 we hope to open the other three which will be Regina, Quebec City and Halifax.

(Translation)

Mr. Clermont: Is it your intention to have such a region in Montreal where it already exists?

(English)

Mr. Benson: No there is not a regional office in Montreal and it is not our intention to have one. Montreal is not badly served by Ottawa, and it is reasonably close; also it will be serviced from Quebec cities. We do not want to have too many regional offices because when you are giving final decisions with regard to appraisals, excise tax matters and rulings for across the country you want to have consistency; it requires very senior personnel and we do not want to run our expenses too high. We think that the six regions will adequately serve people on a regional basis. Of course all the customs ports and excise offices continue as they are now, in addition.

I should correct what I said and say that ultimately there will be a regional office in Montreal and a district office in Quebec.

Mr. Clermont: On page 4, your report, I note, under sales tax licence, for manufacturers and wholesalers a figure of 53,865.

(Translation)

Would it be possible, Mr. Minister, for your officials to simplify these application forms in the case of small industry? Last year, I happened to have such a case, and I am most grateful to your officials for the excellent manner in which they settled the question. I believe that the person who had made the application for a licence had been unable to make head or tail of this paperwork. Someone who operates a small firm lacks the time or maybe the experience to examine such documents in detail. And this resulted in your service claiming tax arrears for a 2 or 3-year period. All this could, I believe, have been rectified with some additional information from your staff.

• (11.20 a.m.)

(English)

Mr. Benson: I really think some of the difficulties have been caused through the regulations and the difficulty on the spot. One of the reasons for creating our regional offices is in order to facilitate this. I think that you will note also in my statement that I said that we anticipate that the number of sales tax licences will increase. The licenced manufacturers will increase because of the regional offices.

(Translation)

Mr. Clermont: My final question, Mr. Chairman, concerns the closing of customs offices. I believe that in his report, the

Auditor General, Mr. Henderson, had suggested, amongst other things, the closing of the customs office in the city of Hull. I know that you have received much opposition to this suggestion and I hope that in your decision you are going to put into practice what you say on page 6—

(English)

—that economic reasons will not be the only criterion for closing down or opening an office.

Mr. Benson: This is quite correct. The Auditor General is quite justified in his report in saying that maybe some of these ports should closed. However we have adopted the policy in the Customs and Excise Division of the Department of National Revenue that we will not close ports if, as a result doing so, service to the people involved will deteriorate. I should point out as well that the closing of a port does not necessarily mean that an office disappears. With a port rating you have a collector. In some instances we have changed from a port to an outpost or down to a one-man office, a port office sort of thing where we do not have to have a collector because, you know, it sets up a different salary scale. In every instance we make sure that the public gets as good a service as they had previously.

(Translation)

Mr. Clermont: I hope, Mr. Minister, that the question of economy will not be the only criterion to guide you in expanding or closing a customs office. You know that on the road between Montreal and Ottawa we have only two offices to serve western Quebec—one at Lachute and the other in Hull. If you were to close the Hull office and send us to Alta Vista—I believe there is an office there—you would meet with many objections.

(English)

Mr. Benson: I think, I made the point in my statement that we consider service to the public of equal importance with economy. We must operate as a Department, as economically as we can and I think Customs and Excise have had a good record in this regard. However at the same time we must provide service to the public and convenience to the public in dealing with our department because after all we are performing a rather unpopular task of collecting taxes from people and we should not make it any harder for them to pay their taxes than we absolutely have to.

Mr. Clermont: Thank you.

The Chairman: With reference to Mr. Clermont's remarks and questions about the recommendations of the Auditor General with respect to certain customs ports, I might draw to the attention of the Committee that some weeks ago I put a question on the Order Paper, No. 2,726, which read: What is (a) the total revenue (b) the cost of operation, for the period April 1, 1965 to March 31, 1966, for all the customs ports listed in the Auditor General's report? In no case was the cost of customs port operation more than the customs revenue. In fact, in some cases there is a startling difference between the customs revenue and the cost of the customs port operation. Take Hull for example; looking at customs revenue alone, the revenue is \$106,000, the excise duty revenue \$161,000 and the cost of customs port operation was only \$50,200. And if you take as another example Walkerville, Ontario, which is within my own community, and with respect to which I myself have received representation similar to Mr. Clermont's, you find customs revenue of \$3,275,800, an excise duty revenue of \$15,810,000 and the cost of customs port operation of only \$114,600.

Mr. Benson: Might I just add that—and Walkerville of course is a very special situation—in some places you can collect a lot of money with a relatively few people. Something we have done is change the establishment in some of the ports. We have different grades of ports across the country, depending on the number of people involved. So you still have a port; you save money by changing your establishment so that you do not have to have a collector of a certain level in a particular port where the collection of the revenue is reasonably easy, and we can economize this way and still maintain the ports.

The Chairman: This will not be done in a way that will mean that service will not be available to the citizen when he wants it. He does not have to wait four or five hours for somebody to travel from a port some distance away?

Mr. Benson: No, we have no intention of doing this. We have to provide service, especially to people who pay a lot of customs and excise revenue; we have to provide them with the best service we possibly can.

The Chairman: I was intrigued, Mr. Minister, on looking at the answer your department provided on this question, to note that even the smallest ports listed had a revenue in excess of the cost. I might say that I was intrigued with the Auditor General's comment or recommendation because I found it rather odd to find advice being given in a way that only brought forward the expense and not the revenue and I was wondering, as a chartered accountant and a former professor of business administration, what you have to say about an auditor who advises clients only with respect to cost and not with respect to revenue and service provided for the cost?

Mr. Benson: I do not believe that this Committee is the place for me to express any opinions I may have in this regard.

The Chairman: I will rule myself out of order on that one.

Mr. Benson: However I should say that if one compares total revenue collected—and of course across the country the revenue collected in the ports has to exceed the expenses on administration by millions of dollars and perhaps hundreds of millions of dollars—takes a ratio and uses it across the country, one could say, "The Toronto port should be kept open forever," and I am just picking this out of the air, "and Halifax should be closed." But you could not close a port in Halifax because you could not provide people with service and that is why I stress the importance of providing service to the public.

Mr. Laflamme: I have a supplementary question on the first question asked by Mr. Clermont regarding the casual employees. Has your department any policy regarding recruiting students during the summertime?

• (11:30 a.m.)

Mr. Benson: This is done by the Civil Service Commission. We in the department hire no casual employees directly. I am told that there are 142 students on duty in the force during this particular summer. They are all picked out by the Civil Service Commission. The Department lets the Commission select the people to work in this particular force, and this has been a matter of policy for some years. I believe they have some guidelines with regard to areas and so on, but it is entirely up to them how they select people.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Are these people mostly employed on customs clearance for boats coming in?

Mr. Benson: No, not boats; I would think that the majority of them are at the bridges and ports with United States officials checking automobiles.

Mr. Laflamme: Is the number 142 higher than last year?

Mr. Benson: It is 34 higher than last year.

Mr. Labarge: These are included in the casuals and there are 34 extra students this year.

Mr. Laflamme: Do these students come from universities?

Mr. Labarge: Yes, most of them come from the universities. They are rather striking and impressive because they wear blazers rather than the formal uniform. Usually they have more charm than some of the others.

Mr. Laflamme: How long are they employed in the summer?

Mr. Labarge: Three to four months. It is usually determined by when they get out of school and when they have to return.

Mr. Laflamme: And what is the salary?

Mr. Labarge: It is \$285.00 per month.

Mr. Laflamme: Thank you.

Mr. Lambert: I understand when that rather notorious move to red-circle was made that this caused some problems within the Department and that you were involved in this. What steps have been taken? Is it still a problem, or have you pretty well resolved it?

Mr. Benson: The problem is pretty well resolved. There are some people still left as red-circled employees. It became a matter of reclassification and then our readjustment of staff into particular jobs. What the Civil Service Commission were doing, and quite rightly, was classifying jobs as such. Some people found themselves in jobs for which they may have had qualifications far in excess but nevertheless the job was red-circled. Therefore, in all Departments—and this just did not apply to Customs and Excise, although we had a particular problem in that Department—these people have generally been adjusted to jobs where their qualifications can be used. There are a few who are still red-circled and in order to alleviate this to some degree the Treasury Board approved in the fall a salary increase for the people who were red-circled in consultation with the employee organizations such as the Public

Service Alliance, the Professional Institute and so on. Therefore, even though these people have not been able to move from one job to another, they did get a salary increase.

Mr. Lambert: I have become aware of a situation where a very small category of your people, including some officers of your Department, have become red-circled to a salary lower than that which they had left to come to the Department. Of course this is quite inequitable.

Mr. Benson: Oh yes, it is very difficult, but it was a matter of job evaluation which was carried out, I think, as efficiently as the Civil Service Commission could carry it out. They did not evaluate the individual; in every case it was the job they were evaluating, and then it becomes the duty of the Department to move the people into the jobs where their qualifications fit them. Of course, the classification of jobs was subject to appeal, and in some cases they were appealed—and successfully, because a classification system is never perfect even though a good deal of time is spent on it. I think the problem is generally cleared up. Certainly I, as Minister, have not had any complaints from the people in my Department in the last several months in this regard.

Mr. Lambert: I have another question in another area.

The Chairman: Is it with respect to Customs and Excise?

Mr. Lambert: Yes. There has been some difficulty in the past with the development of the airports and the schedules which would carry you beyond midnight. There was the old business of Customs officials only being on duty for certain hours, even though their Immigration officials were on duty, and recipients of air freight, particularly air freight, were having difficulty; they were having to pay special fees and that sort of thing. What is the general policy in regard to this now?

Mr. Benson: I think I should refer this to either Mr. Howell or Mr. Labarge.

Mr. J. G. Howell (Assistant Deputy Minister (Operations) Department of National Revenue): Mr. Chairman, Special Services are laid down by Order in Council under the Customs Act and service given to importers after certain hours is chargeable at a rate set by regulations. If commercial transactions are to be conducted after the hours prescribed in

the regulations, then the special service charge is applicable either at an airport or at the border. I think you are referring to certain perishables.

Mr. Lambert: Yes, cut flowers and things of that nature.

Mr. Howell: This was satisfactorily arranged at the airports; arrangements were made to have these things picked up immediately after arrival, and the regulations were amended to provide for this type of perishable to be admitted without special service charge.

Mr. Lambert: There is no special service charge?

Mr. Howell: No.

Mr. Lambert: The same thing would apply in the clearing of cats and dogs contained in cages, accompanying passengers.

Mr. Howell: Yes. This is under the same category.

Mr. Lambert: This was always a problem because there were no facilities and the chief loser was the animal.

Mr. Labarge: There are many stories about that and there can be sympathy for both sides in the issue. Our officers are simply required to see that there is a sort of immunization certificate or evidence that the animal did not go through a contaminated zone. In the absence of this, the Department of Agriculture has to enter to make sure that we are not bringing in hydrophobia or some other such thing. I have known occasions where our officers have inconvenienced themselves; perhaps the agricultural representative has had to appear at three or four in the morning when an unchartered flight came in. It seems to me there are some situations which are so unreasonable that one should not have too much understanding and patience for them. However, on the whole the people are forewarned when they go out concerning animals and we do give every possible service to clear them.

Mr. Lambert: It seemed to me that at one time the difficulty was that the Customs officials were there only to handle the baggage of an incoming flight that had been delayed from overseas or something like that. However, if they were bringing in animals, let us say, from the United States or those areas where clearance is sufficiently easy,

while the Customs official was quite prepared to handle the baggage, regulations prohibited him from handling the animal.

Mr. Labarge: That situation did exist, but it now has been corrected and the officers have much more authority in this regard.

Mr. Lambert: Thank you.

(Translation)

Mr. Latulippe: A short while ago, the Minister referred to the classification of employees as an economic measure. I believe that there is much discrimination on this subject. In my constituency there are some customs offices—seven or eight, I believe. And in all these customs offices I have had a very difficult time over the classification of employees. I have done all I could with the Department, but it seems that the matter is still not settled. There are employees with almost the same number of years of service, doing almost identical work, and owing to their classification, they earn much less money. So there is something the matter. I should like some enlightenment on this subject for I am not very familiar with this matter.

(English)

Mr. Benson: First of all, the classification of jobs was done by the Civil Service Commission. It was not done as a matter of economy; it was to adjust the Civil Service to a basis whereby collective bargaining could be carried out. Therefore we reduced the number of classes who would be engaged in collective bargaining in the Public Service from just hundreds and perhaps thousands down to a relatively small number—I think it worked out to about 70 groups with a lot of subclassifications within a group—in order to carry out collective bargaining.

In doing this, they had to carry out job evaluations, which they did; these were replaced within the Department and people were placed in them, depending on the job they were holding. The next step was that anyone could appeal their classification. There was a formal appeals procedure set up by the Public Service Commission, then the Civil Service Commission—and the appeals have and are being heard. Within the Department we also took steps where people were over-qualified for a particular job classification and we moved them to new jobs. I should point out that the most difficult place to do this is in small ports where you have only a very few employees, jobs are classified at certain levels and someone is in a job that is so-

called red-circled because the position calls for a person of lesser ability than the person who is holding it; unless the person is willing to move from that port to another one, it is difficult to get them out of red-circling. When we got down to the situation where we had moved a great many and found there were some who did not want to move, then we met with the staff associations and we gave them a salary increase in any case, even though the position remained a position calling for lesser qualifications than the particular person holding it, and therefore, a lesser salary.

• (11.40 a.m.)

(Translation)

Mr. Latulippe: Employees in different ports in our area last year complained and still do complain, claiming that their rights have been encroached upon because they have not been classified as they should have been. They do the same work for the same number of hours, they are equally competent, and they claim that they should be entitled to the same salary as those in the class above them. That is why I asked this question.

(English)

Mr. Benson: Mr. Latulippe, if you would pass any particular instances on to me, I would be pleased to look at them.

Once again I would like to stress that it is not the person whose salary is so-called red-circled; the reason that persons are red-circled is that jobs are classified at certain levels. Suppose someone was doing a job and they were getting \$4,500 for it and the Civil Service Commission in classifying the job, not the person, said the job only called for \$4,200—in that case we would not ask that person to take a salary reduction back to \$4,200. He is protected at \$4,500 and in addition to this he got a small increase. If we can move him and he is good enough to be moved to some other job, we will move him.

I might just mention one other thing on this particular point. We believe that regionalization will provide many more opportunities for promotions and development of staff in the various areas across the country.

Mr. Clermont: Mr. Chairman, I note in the Comparative Statement of Customs & Excise Revenue which was distributed to us by the Clerk that for April 1, 1966 to March 31, 1967, Customs Import Duties less Refunds and Drawbacks of over \$73 million, which represents nearly 9 per cent of the total duty.

Mr. Benson: Yes. I will allow my Deputy Minister to correct me if I am wrong on this, but what happens is that people bring goods into the country, and they may bring them in to do some manufacturing on the goods and then send them out of the country again, in which case they are entitled to a drawback of 99 per cent of the duty they paid when they bring the goods into the country. A good deal of this goes on in Canada.

Mr. Clermont: This is my last question, Mr. Chairman. I note the revenue for 1966-67 was over \$700 million. Do you expect that this revenue will decrease in 1968 due to the agreement reached at the Kennedy Round?

Mr. Benson: The Kennedy Round will not take effect until January 1, 1968, and I am not here to forecast what the results of the Kennedy Round may be. However, if there is an over-all reduction, it would not have a great effect on the fiscal year 1967-68.

Mr. Lambert: My next question has been asked. Throughout the various divisions of Customs and Excise there is considerable increase in the travel and removal expenses.

Mr. Benson: That question was answered fifteen or twenty minutes ago.

Mr. Lambert: That is fine.

The Chairman: Perhaps I might deal with one or two points here. Some weeks ago I was in communication with your office with regard to a point raised by architects in my area that there is need for improvement in the administration of the system of rebates of sales tax on building materials with respect to schools, public buildings and so on and you indicated that these points were under review. I refer specifically to the fact that local offices seem to be raising technicalities that they had not before and the rebate system did not take into account the adjustment in sales tax revenue. Would you care to comment on the steps that are being taken to solve these difficulties?

Mr. Benson: I think I will call on Mr. Gordon Bennett, the Assistant Deputy Minister (Excise), to answer that question. It has been a problem and we have been trying to resolve it.

Mr. Gordon Bennett (Assistant Deputy Minister, Excise): Mr. Chairman, as a result of the last Budget there will have to be a review made of the formula by which rebates are given. In the case of the construction industry, this is necessary in order to review our

previous formula where we were on a straight 12 per cent basis and then latterly on a 6 per cent basis, and because there has been a change again this review is going on. All I can say at this time, Mr. Chairman, is that this review is in motion. If there are any particular problems we would be glad to hear about them and we will try to solve them.

The Chairman: I will not take much of the time of the Committee but I brought to the attention of the Minister's office certain specific complaints raised by architects in the Windsor area which I think are being taken into account in the review. I might comment, however, that I would have thought that it would have been possible to adjust the formula simultaneously with the announcement of the tax changes to avoid delay and inconvenience to contractors, builders and so on.

Mr. Bennett: Because it is a very complicated formula, Mr. Chairman, it takes even chartered accountants some time to review, go through them and make adequate adjustments in order to ensure that the revenue is adequately protected in the formula.

Mr. Benson: I should also mention that the adjustment in the sales tax brought in a two-rate systems, and where you have building materials at 11 per cent and other items at 12 per cent, it makes it even more difficult to adjust the formula.

The Chairman: Yes. I, on behalf of people in my area, contacted the Department many times—as did other members—when this rebate formula was first worked out in an attempt to assist all concerned to adjust it, so I know something of the problem. In any event, you definitely are working on it and attempting to bring this to a conclusion as soon as possible.

As a result of the changes under the auto pact, I gather you would have to establish certain changes in your system of record keeping, clearances and so on, and you have found that this is working reasonably smoothly.

Mr. Benson: Yes, it is working reasonably smoothly. I have had some letters from auto manufacturers in this regard. As a matter of fact, I signed a letter to one of them just last week pointing out the things we had done. The Auditor General asked us, in his Report, to keep more complete records in this regard, which we have endeavoured to do and yet to try to minimize the amount of work that is involved to the importer or exporter.

The Chairman: At the same time I think the public is interested in knowing if you are, in fact, maintaining a system to attempt to ensure that the commitments under the auto pact by the industry are being kept so you are in a position to know what is going on.

Mr. Benson: That is right.

The Chairman: I have one final point. Questions were asked about the reorganization and decentralization of the Department and my question perhaps would relate to every department, subject to this change. While this may help to deal with problems expeditiously, do you foresee any trend toward lessening of actual control on the part of people like yourself who are responsible to Parliament and to the public for the operations of the Department? In other words, it is all very well to decentralize but I certainly would not like to see a trend whereby someone like yourself, with respect to your Department or any department, becomes more of a spokesman and less of an administrator and director.

Mr. Benson: No. I think decentralization will give more control because, with six regional offices, it will mean that decisions made on particular matters will get very quickly to all of the regions in Canada and be carried out. It is our belief that the control will actually be better.

The Chairman: I am referring particularly to the control of the minister who is accountable to Parliament and to the public.

Mr. Labarge: Since it is an essential part of my job that the minister be accurately and fully informed, this has been a major concern too with me and my officials. The essence of decentralization is, in fact, control. We have completely reorganized our management so that it operates as a management team, accountable at regular meetings as the processes go on. We have measurements, as far as you can make measurements, on productivity. Already, we have reports back from our regional office in London showing the elimination of a telephone. Why? Because the cost of that telephone is the responsibility, first, of the man who is in charge of that office. We have had space being turned over which has not been occupied. The sense of economy is there and the man knows that he has to perform and all his officers must be productive. These reports will be submitted to me quarterly, as they have been already from London, and the Minister is informed at any

time he wants to know about it. If anything is out of line, the Minister has it brought to his attention. We cannot keep troubling the Minister and ask him to read the quarterly reports of six regions covering some 500 ports but I do think that from the management office, the management team, the deputy minister and the minister we certainly will have a much better and clearer picture all the time as to what is going on in our offices.

The Chairman: Thank you, Mr. Labarge.

Mr. Monteith: I have a general question, Mr. Chairman. I do not know whether or not this subject has been discussed but I had reason to cross the Ambassador Bridge last April when returning to Canada. I think the Chairman probably is well acquainted with conditions there. On this occasion one of the officials to whom I complained about the disgraceful conditions of the washrooms undertook to assist me in my brief inspection which led me to believe that it was an awful welcoming spot for people coming into Canada. I think he also informed me at that time that this was really the Bridge Authority's job. Have we no control over the Bridge Authority at all?

The Chairman: I think that the Ambassador Bridge is operated by a privately-owned firm under charter and licence of the federal government. I think there was a special act of Parliament passed in the nineteen-twenties setting it up and, as far as the Bridge aspect is concerned I think it comes under the jurisdiction of the Board of Transport Commissioners and the Department of Transport. The Minister may have additional information to give to the Committee, but I think this aspect is quite an important one because it is one of the principal ports of entry into Canada for hundreds of thousands of visitors.

Mr. Monteith: To use a colloquial term it was in a lousy condition. Papers and cigar butts were strewn about and the washrooms were in a disgraceful condition. Surely, we have some control over this.

The Chairman: Yes. I was just going to say that I think the people who should check up on the Ambassador Bridge are the representatives of the Board of Transport Commissioners and the Department of Transport.

Mr. Monteith: Are these really not facilities of the Customs and Excise Division?

Mr. Benson: No, they are not. When someone builds a bridge or a tunnel in Canada it has been written into the law that they must

provide facilities for customs and excise. They supply them free. We pay no rent for these facilities but one must realize that it costs us money to put customs and excise officers there.

We have found generally that where facilities were bad and we complained about them that the authorities co-operated with us and fixed them up. I could use as an example the Thousand Islands Bridge where they have done a great deal very recently for our customs facilities. We find them generally co-operative but we have no direct control by which to tell them to do this. Mr. Gray indicated the responsibility for these facilities.

Mr. Monteith: Has a report been made concerning the Ambassador Bridge?

Mr. Benson: I am informed that a report has been made.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Mr. Benson, you said that in the case of a public or a private authority building a bridge they had the responsibility of providing customs facilities. Have you no standards that they must meet?

Mr. Benson: We do for our own people operating them but not standards for public washrooms, for example. They must provide us with customs facilities; they consult us and provide us with adequate customs facilities but beyond that the general facilities on the bridge are under the jurisdiction of the Board of Transport Commissioners and the Department of Transport.

The Chairman: It might be useful to note that you are going to use the informal consultation procedure you have to bring this justifiable complaint of Mr. Monteith's to their attention.

Mr. Benson: We have already done this, Mr. Monteith, and we will certainly follow this up.

Mr. Monteith: I may have reason to cross again and I personally will recheck it.

Mr. Benson: I think your complaint really should be, if it is the public washrooms you are talking about, directed to the Board of Transport Commissioners.

Mr. Monteith: Incidentally, sir, the only facilities your people have to make a cup of tea at noon is to go down into one of these terribly disgraceful washrooms and run water out of a dirty tap into a dirty sink. It was anything but clean.

Mr. Benson: We try to protect our own people and, generally speaking, I think our people at the ports are adequately taken care of by pressure that we exert on those who are responsible. We could not threaten to withdraw the customs office from a port. Practically, you could not do this. It is the only control we have.

Mr. Monteith: That is true. It is unthinkable, in my humble estimation, but as the Chairman has suggested, word will go to the Board of Transport Commissioners to get busy and do something about this.

Mr. Benson: Yes.

The Chairman: Are we in a position to pass Item 1 as it pertains to Customs and Excise.

Item 1 agreed to.

The Chairman: We can move on now to Vote 5, taxation.

Taxation

5. General Administration and District Offices including recoverable expenditures on behalf of the Canada Pension Plan, \$57,833,900.

The Chairman: We may now excuse the officials from the Customs and Excise Division. We thank them for their assistance in providing us with the information requested. I ask that their places be taken by the officials of the Taxation Division.

I believe the Minister has a separate statement dealing with this phase of his responsibilities. We will wait just a moment while the officials come up to take their places.

Mr. Clermont: Are there copies of the statement?

Mr. Benson: Yes, we have.

The Chairman: If you arrange with the Clerk to have them distributed, it might save time in our considerations. Perhaps while they are being distributed we could ask the Minister to begin his statement.

Mr. Benson: Gentlemen, this is really looking at the other division of my Department and as I stressed in my original statement on Customs and Excise what you really have in National Revenue is two departments. We have one dealing with Customs and Excise and the other dealing with Taxation, each under a Deputy Minister with Assistant Deputy Ministers and the staff responsible up to them and they operate, although they co-operate back and forth of course, relatively independently.

We now are considering the Taxation Division, Department of National Revenue, and I have with me today Mr. D. H. Shepard, who is the Deputy Minister of Taxation, on my right and a number of his senior officials whom I would like to introduce to you at this time. There is Mr. J. F. Harmer, Mr. J. R. Morrissey and Mr. W. I. Linton who are technical experts from assessing. We have Mr. J. McKerchar who is from the Canada Pension Plan section; Mr. M. S. Sprott from the Planning and Development section; Mr. D. J. Costello and R. S. Gunn from the Financial Administration section of the Taxation Division of the Department of National Revenue.

In the early life of the department the Taxation Division was concerned only with the collection of a simple general tax on corporate and personal incomes. Honorable Members are, I am sure, aware of how complex the tax legislation has become. But I wonder if you realize the number of laws now administered in whole or in part by this Division.

First, of course, there is the Income Tax Act through which the direct taxes on individuals and corporations are collected as well as the Non-resident and Gift taxes; since 1962 the Division has administered, as an agent, the individual income taxes for all provinces except Quebec and corporation income taxes for all except Ontario and Quebec under the Provincial Income Tax Acts, which are passed by the provinces. Since 1952 the Division has been collecting the Old Age Security Tax under that Act. On January 1, 1966, it began collecting contributions to the Canada Pension Plan and is responsible for administering that part of the Canada Pension Plan Act. Finally, there is the Estate Tax Act which is also a responsibility of this Division.

The growth of work in administering these tax laws has been pronounced. As an example, the number of 1966 income tax returns filed this year will exceed 7½ million. During the fiscal year 1966-67 the Division's revenue rose to almost 7½ billion dollars, reflecting collection of Canada Pension Plan contributions.

There is no doubt that the Canada Pension Plan administration has been successfully integrated with the Division's other responsibilities but it has had a noticeable effect on the total work force required to get the job done. For example, the total regular staff as at 1st May this year was 7,163 compared with 6,574

at the same time last year, an increase of 589 or 9%, a good part of which is due to an increase in support staff for the Canada Pension Plan.

We have, however, been able to take continuing advantage of the computer installation at the Taxation Data Centre where a tremendous and increasing volume of paper work is disposed of with only nominal increases in the casual man-years provided.

In regard to the Taxation Data Centre Honorable Members might be interested to know that of approximately 7½ million income tax returns processed there in 1965-1966, almost 4½ million called for refunds totalling 470 million dollars.

And now I would like to bring your attention for a few moments to the Division's organization. We have prepared and distributed three organization charts to give you a better understanding of the framework within which the Taxation Division operates. These are being distributed presently. They consist of a chart of the Head Office organization, a typical District Office and the Taxation Data Centre.

The Head Office chart reflects the new organization with three Assistant Deputy Ministers compared to only one a year ago and the separate reporting of branch heads responsible for Management Audit, Personnel, Financial Management and Information Services. The appointment of three Assistant Deputy Ministers responsible for Operations, Compliance and Planning and Research has reduced the wide scope of responsibilities that were inherent in the Deputy Minister's position under the old organization and it is expected that having the 30 district taxation offices, including the Taxation Data Centre, responsible through the Assistant Deputy Minister, Operations, will lighten the load of the Deputy Minister and result in a number of efficiencies.

The Taxation Division has made a Program Review submission to Treasury Board outlining financial requirements for the next five years commencing in 1968-69 and suggesting the use of four distinct programs as a means of control in the financial management field. There are separate programs for Compliance, Operations and Planning and Research under the three Assistant Deputy Ministers and a Departmental Administration Program made up of the separate directorate functions, Management Audit, Personnel, Financial Management and Information Services.

I should point out that Mr. Sheppard was appointed Deputy Minister last fall and as a result it has been only possible to this date to appoint a relatively small number of senior officials immediately subordinate to him in the organization. The next year will be witness to a large number of changes as the various positions making up the separate branches are filled.

The Head Office organization study was conducted by the Advisory Services Branch of the Public Service Commission and one of the Recommendations was that the organization of district offices, including the Data Centre, be examined following the implementation of the new headquarters organization. This second study has, of course, not been commenced and therefore the District Office and Data Centre charts reflect the existing organizations.

The 1967-68 estimates for the Taxation Division are shown on pages 375 to 378 of the 1967-68 estimates book. Their presentation in object of expenditure format will be changed in subsequent years to presentation by programs in keeping with the Program Review submission I just mentioned. The funds included in the estimates total approximately 58 million dollars which is net after Canada Pension Plan recovery of approximately 5½ million dollars. I should perhaps at this point indicate that although we have additional staff for the Canada Pension Plan the cost of this staff and the operation for the Canada Pension Plan are recoverable out of the Plan as was provided in the Canada Pension Plan legislation.

The 1966-67 figures as shown in the estimates book have been changed as a result of Supplementary Estimates late in the year and now reflect a total of approximately 52 million dollars. More than a third of the total increase between the two years is as a result of general salary revisions in all categories of the Civil Service. Other increases arise from proposed hiring of additional desk audit staff, rental of more sophisticated computer equipment, purchase of furniture which was previously provided for in Public Works estimates and general price increases.

I would like to draw your attention to another statement distributed for your benefit titled "Revenues, Cost of Collection, Staff Employed and Returns Filed". This shows in capsule form the main workload handled by the Taxation Division from 1945 to 1967 and the manpower and financial resources utilized for this purpose.

As I mentioned before, the Taxation Division has the problem of contending with a continually growing workload from year to year and estimating staffing requirements to handle this workload without having corresponding increases in unit cost. It has been possible to achieve this objective to a great extent. Despite our more complex legislation in the tax field, including the fact that we are collecting agents for most of the provinces, the cost per return filed in 1967 is only \$6.51 compared to the highest unit cost of \$7.45 in the 1949 fiscal year. Similarly, the cost to collect \$100. is only \$.85 in 1967 compared to the highest unit cost of \$2.16 per \$100. collected in 1950. While we have fluctuations year after year, I believe maintaining the status quo is a tribute to the administrative efficiency of the Division.

I would like to point out also that Taxation is more than self sustaining through the use of its highly trained auditing staff. During the 1966-67 fiscal year when costs totalled approximately \$52,000,000., field and desk audits of taxpayers' returns and records alone resulted in net re-assessing increases of \$129,000,000.

Finally, I would like to make brief comment on the Tax Appeal Board estimates which are annually presented by Taxation along with their own. The \$193,000. Administration Expense for 1967-68 reflects an increase of approximately \$14,000. over the prior year. Increased salaries through general salary increases account for \$5000. of the increase with \$7000. for replacement of office equipment and furniture, and \$2000. for travelling expenses making up the balance.

It should be mentioned that the Board is experiencing an increasing number of appeals as the number of taxpayers grows and the last increase in membership to the Board occurred in 1961. In order to effectively handle appeals and prevent the build-up of a large inventory, I know that the Board is going to request in the near future that the membership be increased from six to nine with a corresponding increase in administrative staff. This may be presented through Supplementary Estimates in the current year.

Mr. Chairman, that is my statement. I hope that sufficient information has been provided that the Committee can now proceed.

• (11.10 a.m.)

The Chairman: Thank you, Mr. Benson. The meeting is now open for questions and discussion. The first name on my list is that of Mr. Monteith.

Mr. Monteith: I just have three questions at this stage, Mr. Chairman. First I understand the members of the Tax Appeal Board must be lawyers. I have complained about this in the past myself. Do you not think there should be a smattering of chartered accountants in there, Mr. Benson?

Mr. Benson: Well, of course, being a chartered accountant it would be a very personal opinion I would be giving but I think this matter is dealt with in the Carter Report when he is talking about a tax court. I believe that most of the decisions given by the Board are judicial decisions. I believe, under existing law, they have the right to hire people such as chartered accountants to give them competent advice. Speaking only as a chartered accountant and not as a minister, I think they should avail themselves of this whenever it is necessary.

Mr. Monteith: It has always been a pet peeve of mine but I will carry on. On page four of this statement, towards the bottom you state:

...field and desk audits of taxpayers' returns and records alone resulted in net re-assessing increases of \$129,000,000.

What percentage roughly of the 7½ million returns would result in an increased re-assessment.

Mr. Benson: We have the figures. Would you like to proceed with another question while we check it.

Mr. Monteith: I follow that question by asking what percentage of that percentage would be caused by errors of commission.

Mr. Benson: You are thinking of special investigations.

Mr. Gilbert: Does Mr. Monteith mean errors of commission by tax assessors or by taxpayers?

The Chairman: There are both kinds.

Mr. Benson: I would hope there are none of the latter.

The Chairman: I would hope there are none of the former.

Mr. Monteith: Maybe one of the other men could answer my other question. At the present moment, after having paid in for two years and one month, or part of three years at any rate, a Canada Pension Plan widow is subject to a pension if the employee dies. Am I right?

Mr. Benson: That is right.

Mr. Monteith: Then the present worth of that pension is taken for estate tax purposes. Now say that widow herself were to die within two years. Am I correct in saying that there is no readjustment of estate tax in any manner, shape or form for the present worth of that pension?

Mr. Benson: Yes, there is if she dies within four years.

Mr. Monteith: If she dies within four years the tax is re-worked.

Mr. Benson: Yes.

Mr. Monteith: Thank you very much, that answers that question.

The Chairman: Are you in a position to give the statistics now?

Mr. Benson: Do we have the statistics?

Mr. D. A. Sheppard (Deputy Minister, Taxation, Department of National Revenue): The only thing we have, Mr. Chairman, is what we call our immediate assessment changes. The figures referred to in the Minister's remarks are re-assessing changes which we just do not have here. We can get them for the next meeting.

Mr. Monteith: What I am really coming down to is this: what percentage of your returns give you cause for belief that there have been errors of commission on the taxpayers' part?

Mr. Benson: My Deputy Minister can correct me if I am wrong, but we do our secondary examinations on a test basis, and I would not like to disclose the basis of our test or what percentage of the returns we do test. If we find specific areas in which errors do occur then we will go further into returns having similar calculations.

Mr. Monteith: You may make a beeline on doctors or someone else.

Mr. Benson: Here again, I should not divulge information but the computer is going—

Mr. Monteith: Or lawyers or chartered accountants.

Mr. Benson: —to give us more information as to where errors are likely to occur and will assist us in selecting the areas in which we should concentrate our efforts. There are also

special situations which arise and show a trend towards particular areas where people are evading tax, if I can use this word, which give us leads into particular types of returns we should examine.

Mr. Monteith: I do not have the Act in front of me. Is it section 25 that gives you power to levy a penalty of double taxation and so on.

Mr. Benson: Section 56.

• (12.15 p.m.)

Mr. Monteith: I have seen several letters going out from District Income Tax Offices on a first re-assessment basis indicating they are bringing to the taxpayer's attention that this Section does apply. I am complaining about this to some degree because I do not feel that the Income Tax Department should be after a person's blood and so indicate to the taxpayers although I know they are entitled to all their tax money.

In a first re-assessment letter which may go out I have seen the section quoted indicating that the fellow has probably done such and such by commission rather than omission, which is what bothers me. Most taxpayers, I am quite sure from my experience, do make errors of omission. I know and agree with you that there are several who make errors of commission as well—I am willing to concede that—but the thing that bothers me is when the first notification to a taxpayer that he may have made an error in his tax return indicates that he is liable to be assessed in penalty, and this sort of thing. In other words, it indicates he is trying to cheat the government in some manner. I just do not think this is true. I do not think it should be done in this way.

I know of an instance where a wife cashed some bond coupons and unwittingly omitted them from her list. They were actually her husband's coupons and she did not think of putting them on her tax return. The Income Tax Department wrote to her—apparently she signed the bank slip—to enquire why these were not put on her return. She replied that they belonged to her husband and should be on his return. The husband was re-assessed but he was assessed a penalty. It was an error of omission.

Mr. Benson: The section reads, "Gross Negligence". Having spent time on the other side of the fence—as my hon. friend has as well—I should like to say, in defence of the Department, that usually before an assessment is made for a penalty under Section 56,

there is contact with the taxpayer; there may be cases where there has not been. After all, when you are assessing seven and one-quarter million personal income tax returns and there are 6,000 or 7,000 assessors on your staff working across the country, you might find an instance where due consideration has not been given.

I should like to say that in my experience full consideration and consultation with the taxpayer takes place before a penalty is levied under Section 56 (2). My hon. friend may indicate instances where this has not happened, and there may be instances. However, since I have been Minister of National Revenue I have had remarkably few complaints that a penalty has been assessed when it was not justifiably payable.

Mr. Monteith: Are any instructions given to your assessors in the various district offices indicating that the taxpayers should be treated as human beings rather than criminals?

Mr. Benson: All the time. We do not treat taxpayers as criminals. I take objection to that particular statement. We treat taxpayers as individuals. We have been trying to build up a relationship of mutual respect with the taxpayer, not indicating to them in any way that we are out to gouge the taxpayer. That is not our job. Our job is to collect the taxes which are payable to the government of Canada under the law which is passed by Parliament.

I have been trying very seriously to build the image of the tax collector in this regard and offering all kinds of co-operation to the taxpayer that has never been offered publicly before. We have used advertising in order to indicate to the taxpayer that we are willing to discuss his problems with him. We have had telephone lines—non-tariff lines—put into the tax office during the filing season. We have opened kiosks in shopping centres to help people with the payment of their taxes. The general trend within the Department has been to try to impress upon the public that we will deal with them fairly, we will answer their questions and help them in every way we can in the disagreeable task of making up their annual tax returns.

Mr. Monteith: That is a very good defence, Mr. Minister, and I congratulate you on the course along which you are trying to lead the Department. I trust you will continue to do so. In the first approach by the inspector or assessor to the taxpayer, will you please suggest to them that they do a little humanizing?

Mr. Benson: I hope my employees are very humanized and that they are dealing fairly with taxpayers in the country. I am sure this is generally the case. I say again, I have had very few complaints concerning the way individual assessors are dealing with taxpayers. Whenever there is a complaint it is followed up through my Deputy Minister to the end to find out whether there is something wrong. If anyone has treated people unfairly or impolitely, he is severely reprimanded.

Mr. Laflamme: May I ask a supplementary question Section 56, paragraph 1, where penalties are imposed by your assessors. Do you not believe, Mr. Minister, that this is quite a discretionary power? The taxpayer might say that he made his return in good faith; perhaps he did not know that he had to declare an item on his income tax return and then the assessor agrees.

Mr. Benson: The assessors in the Department have to make a decision and this is usually done very carefully. Penalties are not imposed by some despotic clerk, for example. They go to the Chief Assessor in the particular district taxation office before being imposed. Secondly, if the taxpayer thinks that they are unfairly imposed, he has the right to several courses. Everyone has the same right with regard to objecting to the way he is being assessed.

First of all, he can go to the assessor, the Chief Assessor in the district taxation office and to the District Director and speak to any of these people with regard to any unfairness that he thinks is involved. Then, if he still thinks the whole district office is treating him unfairly, he can follow one of two courses. He can appeal to Head Office through me and we will be glad to look at the income tax return.

Secondly, he can file a Notice of Objection. If he files a Notice of Objection, his whole assessment is automatically moved out of the district taxation office and examined independently, including the imposition of penalties, by people in the Head Office in Ottawa and a decision is made. Then we have to affirm or vacate the assessment. If we decide to affirm the assessment—and anybody, at this point, can come to Ottawa and discuss it if they wish to—he still has the right to appeal the assessment, including the penalty, to the Income Tax Appeal Board.

All this costs no money except, I believe, a \$15 filing fee to the Income Tax Appeal Board which is returned. The Income Tax Appeal Board, in turn, goes to various areas in Canada where the district offices are locat-

ed and the person can appear before this independent Board, indicate his dissatisfaction with the assessment, give his reasons and get another independent opinion on it. Then, of course, after this if he is still dissatisfied, he may appeal to the Exchequer Court but this usually only happens in more important cases.

Therefore to return to your question, the imposition of the penalty is not an arbitrary measure which is binding. Under the law, I have no right to vary the penalty after it has been applied but it is subject to appeal through the various processes I have indicated.

• (12.25 p.m.)

Mr. Monteith: I would like to ask one further supplementary question. This began, in my opinion, because the first letter of assessment simply used to ask for explanations but now this Section 56 (2) is pointed out, indicating that the taxpayer appears to be over a barrel right from the drop of the hat. I do not like this.

Mr. Benson: This would be the re-assessment notice going from the district office. I will have a look at the wording of the letters that are going out and if they do appear to be unfair, we will be pleased to consider whether they should be changed. We do not want to hold threats over people's heads unless it is necessary. Generally, I think we have the best compliance with taxation in Canada of any country in the world. There is a mutual respect between the taxpayer and the tax collection Department and we certainly want to see it continue that way.

The Chairman: I now recognize Mr. Clermont, followed by Mr. Lambert and Mr. Lind.

Mr. Gilbert: May I ask a supplementary question?

The Chairman: I think I should ask Mr. Clermont whether he has any objection.

Mr. Clermont: I have no objection at all, sir.

Mr. Gilbert: With regard to the pension problems that Mr. Monteith mentioned, am I right in assuming that if a contributor dies within the first couple of years, the widow is not entitled to the contributions that the deceased contributor made?

Mr. Benson: That is right. He has to have contributed for three years. This is a requirement under the Canada Pension Plan Act.

Mr. Monteith: Two years and one month, is it not.

Mr. Benson: Yes, it has to be in the third year.

Mr. Gilbert: Why is that, Mr. Minister?

Mr. Benson: This is how it was written into the Canada Pension Plan Act which was approved by Parliament.

Mr. Monteith: Over the objections of some of us.

Mr. Benson: I do not know what the losses would be as the result of this. It might mean that someone, if he were employed, had put in \$79.20 twice and would not get back \$158.00. But if he gets beyond the period, there is a great advantage to the widow, of course. You have to weigh one against the other. Let us suppose, for example that a man had contributed for three years and died at the age of 22. His wife is eligible for a substantial pension from the Canada Pension Plan.

We are really looking at the other side of the Canada Pension Plan which is not the direct responsibility of my Department. It has been pointed out to me by Mr. Sheppard that there are flat rate benefits to widows and it would not be fair to pay these relatively high flat rate benefits, for example, on six months' or one year's contributions. The only thing you could have done is to set a date and perhaps give back the contributions for a year or so.

Mr. Gilbert: I was thinking of the return of contributions the person has made rather than any benefits.

Mr. Benson: Of course, a single fellow can make contributions all his life until he gets to be 64 and then drop dead and nobody benefits, except the other people who are taking part in the Canada Pension Plan.

(Translation)

Mr. Clermont: Mr. Chairman, Mr. Minister, one complaint has often been brought to our attention; namely the slowness with which your Department makes refunds to the taxpayer. On Tuesday, I believe, to a question which you were asked in the House of Commons, you replied that in 1967 as compared to 1966 there is some improvement, but we still hear this criticism that it takes time to get a refund. The comments which we receive from the taxpayers are that the government is very

quick to collect the taxes, either at source from the employers or every three months from those who are self-employed.

(English)

Mr. Benson: Yes. The method of collection is laid down by the law concerning the method of payment of the tax. In defence in respect of the last item, I should like to say that returns of taxpayers in Canada have never, in the history of our country, been processed and refunds made as fast as they are right now. I believe that in no other country in the world are they treated as expeditiously as they are here. For example, in Britain they take much longer than we do to deal with them. We received this year, I believe, seven and three-quarter million tax returns and I think it is a phenomenal accomplishment that within three or four months of the final filing date of April 30 we can have every one of these tax returns completed except those in which there have been errors or are going to be reassessments. I think it is an amazing accomplishment to get that done.

(Translation)

Mr. Clermont: On the average, how much time is likely to elapse between the tax return and the refund? Six weeks? Two months?

(English)

Mr. Benson: Once we get started with our machinery, I would say that the period, on average, is about five or six weeks. You and I hear of the ones that take longer. I should indicate that incoming mail is dealt with in the order of its receipt.

In many of the cases where we have complaints about the length of time for the refund, there has been an error in or some question concerning the return and we have had to send it to a district office to be checked. That is not our fault. If the return is correctly made out I would say that the average processing period is about five or six weeks. However, the first returns coming in might take a little longer because we must wait until enough returns are received in January or February to provide the volume to justify employing a staff to start our processing machinery.

• (12.30 p.m.)

(Translation)

Mr. Clermont: I notice in the reports which the clerk handed out to us that the cost per statement form has increased by 34 cents. Does that mean that your forms are more

complicated than in past years? If I remember correctly, we were told at the beginning of 1967 that the shorter Form T-1 would be easier to complete. But that is not the opinion of the public. Many people feel that the 1966 shortened Form T-1 was more complicated than that of previous years.

(English)

Mr. Benson: I believe the increase in cost for processing per return, is a reflection of the increase in wages over the period. There has been efficiency, if one compares it with the period up to 1950, but the other increase, I think, is due to an increase in wages. I should also point out that in the calculation of the \$6.51, the increased cost for the pension plan was taken out in making that calculation, because we are reimbursed for it by the Canada Pension Plan.

(Translation)

Mr. Clermont: But are your senior officials still of the opinion that the shorter Form T-1 for the 1966 tax year was easier for the taxpayer to fill out than that of 1965 or 1964? Several criticisms have been brought to the attention of both myself and of my colleagues.

(English)

Mr. Benson: I think it was simpler, if one excludes the additional calculations necessary because of the Canada Pension Plan. One of the difficulties this year was the inclusion of the new calculations for the Canada Pension Plan and whenever a new calculation appears on a return it appears more complicated to the taxpayer.

There actually have been this year—and this is based on results to date—substantial decreases in taxpayers' tax calculation errors. On T1 Shorts, errors decreased from 167,000 last year to 66,000, or a 61 per cent decrease, this year. This excludes the Canada Pension Plan calculation. The decrease was even more pronounced on the T1 General returns, where there was a decrease in calculation errors of 79 per cent.

(Translation)

Mr. Clermont: Another point which I should like to bring to your attention, Mr. Minister, is that of a person living in Quebec on December 31, 1966 but working in another province. Under the conditions for tax deducted at source, this person was entitled to a certain percentage for the Quebec provincial tax. I believe that more publicity and more information should be provided for the tax-

payers. I know that several of my colleagues here in the House of Commons, who come from the province of Quebec, did not know that the law permits a transfer from Ottawa to Quebec. I believe that in the 1966 tax year it was a matter of 34 per cent representing the Quebec provincial tax in the case of a taxpayer working in Ontario in 1966—33 or 34 per cent.

(English)

Mr. Benson: I think I will let Mr. Sheppard answer this. I have discussed it with him in the past.

Mr. D. J. Costello (Comptroller): Mr. Chairman, on this particular problem, I do not think the percentages in numbers of people working in Ontario and resident in Quebec are anything like 33 per cent.

Mr. Clermont: I am not speaking about percentages. The 33 or 34 per cent I mentioned represents the income tax deducted.

Mr. Costello: The number of people to whom this applies is comparatively small and it was not thought that we could include it on the T1 Short return because it would be confusing to the vast majority to whom it did not apply. We have a special form that gives that information and we think what they can do is fairly clear. We tell them how to make up their tax return and what percentage to apply on that. That is available for those to whom it applies.

Mr. Benson: Next year I will make sure that it is sent to every member of Parliament.

Mr. Clermont: When I mentioned this to some of my colleagues and to others, many did not believe me because they claimed they did not receive that extra sheet attached to their return.

Mr. Costello: It may not have been attached to the return. We did not distribute it generally to all people.

Mr. Benson: I will make sure that every member of Parliament gets one next year.

Mr. Clermont: Mr. Minister, not only members of Parliament but other people are concerned.

Mr. Benson: No; there are other people in the civil service in Ottawa.

(Translation)

Mr. Clermont: My last question, Mr. Chairman, is this. You know, Mr. Minister, that in the province of Quebec,—I do not know if it is so in the other provinces—on the matter of gifts to charity, the law states that up to \$100 receipts are not required, but that for \$100 or more, receipts must be attached otherwise the deduction is withheld. I do not know if I should say this, but are relationships between your Department and the clergy in the province of Quebec better than before? Some of our priests used to claim that they had become the inspectors of police detectives of your Department. From time to time we receive correspondence on this subject.

(English)

Mr. Benson: This matter of charitable donations was a difficult one and has been for many years. Under the new law passed last year with respect to charitable donations, I believe the problem will be much easier in the future.

I think the clergy, at least the senior clergy in all provinces, have generally agreed to the proposition that there must be some evidence of giving, other than the person's word, before a receipt is made out and are developing systems that use envelopes, or something similar, to record the amount given.

I have, of course, a great deal of sympathy with the position of many of the clergy and other people who collect money in small amounts. However, one must enforce the law; one must make sure that people are not deducting charitable donations for amounts they have not given. I should indicate that violations we have found in the past have in no way been confined to the clergy. They have occurred in other organizations where receipts have been issued on the word of the person who gave the money, without any evidence of the receipt of the money. In some instances, we found that the total of the receipts issued far exceeded the amount of money the particular charitable organization indicated it had received.

Under the changes to the statute which were introduced last year I believe this problem will be solved in the long run, because financial statements will be filed and receipts will be issued. One will be able to see that the total of the receipts is roughly equivalent to the amount shown as received in the financial statements. Certainly it is a difficult personal problem in dealing with individuals, but I

think it is a problem that had to be solved in order to protect the revenue of Canada, and we have tried to solve it. I believe that, in the long run, people will accept it.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Would it not be better, Mr. Minister, to adopt the Carter Commission's suggestion to abolish exemptions?

• (12:40 p.m.)

Mr. Benson: This is a matter of policy.

(Translation)

Mr. Cantin: Mr. Minister, is there any particular reason why a taxpayer is refused automatic exemption of \$100 without proof when he requests an exemption for medical expenses?

(English)

Mr. Benson: No. One has the choice of either claiming the \$100 for both medical expenses and charitable donations or of submitting receipts for both. The \$100 deduction covers both medical expenses and charitable donations.

Mr. Cantin: What is the reason for putting in both?

Mr. Benson: The basic reason for putting in the \$100 was because the Department used to spend a lot of time checking small amounts for medical receipts and charitable donations and, of course, the medical receipts are only deductible if they exceed three percent of the net income. We used to spend a great deal of time doing this so it was decided to allow \$100 deduction for both in the interests of efficiency and to make less work for those who do not have many claims of either sort.

However, if a person has great medical expenses and no donations, it may be to his benefit to file the actual receipts for medical expenses and, even if he has given only \$50 in charitable donations, to include them as well, and he will get full advantage of his medical receipts plus the \$50 in donations. But it is a combined deduction of \$100.

It also used to include union dues at one time, did it not?

Mr. Costello: Yes.

Mr. Benson: They have been taken out and are listed separately now.

Mr. Lind: Mr. Chairman, I have a supplementary question concerning this \$100 automatic deduction for charitable donations. If a

person has receipts for more than \$100 in charitable donations, is he then allowed to deduct the \$100 for medical expenses?

Mr. Benson: No. It is combined. The \$100 is combined for charitable donations and medical expenses.

Mr. Lind: If a person has deducted his maximum of ten per cent for charitable donations and he has an accumulation from year to year, how long is he allowed to go back on this accumulation?

Mr. Benson: He carries it forward one year each time.

Mr. Lind: He carries it forward one year?

Mr. Benson: That is all. For example, if somebody had something left over from 1965, he could carry it forward into 1966 and claim part of his 1966, carry forward the balance of 1966, and claim part of it in 1967.

I should point out that there are relatively few people in this particular category but it is a problem raised from time to time by people who have religious obligations to give ten per cent of their income to a particular religious organization. The government, to date, has not seen fit to change this particular item to allow charitable donations beyond the ten per cent, although I should point out that gifts to the Crown are deductible without the ten per cent limit.

Mr. Lind: What about gifts to a university, in this case?

Mr. Benson: They are under the same limitation.

Mr. Lind: They are under a ten per cent limitation?

Mr. Benson: Yes.

Mr. Lind: Has any consideration been given to increasing the limit for universities?

Mr. Benson: This has been considered. Ever since I have had anything to do with budgets in the federal government, it has been considered each year. It has not been acted upon because of the feeling that there is not a sufficiently widespread demand for it to warrant making the change. Many people of course, make their donations to universities over a period of years to fit in with the ten per cent limitation.

Mr. Lambert: I will start in the field of charitable organizations. There was some difficulty at the beginning in issuing certificates to charitable organizations and giving them a number. Has this been pretty well cleared up now?

Mr. Benson: I think it is moving along quite well. One of the things one has to remember is that suddenly we had 40,000 or 50,000 charitable organizations to issue certificates for. To date we have received, I am told, 27,000 applications for registration as charitable organizations. Of these, 1,500 were not approved or were cancelled. We have approved 22,000, making a total of 23,500. We have about 3,500 unprocessed applications which we are working on.

I should also point out here something that we tried to do in dealing with these organizations. We requested charitable organizations that collect their money at the end of the year to postpone their registration and getting their number to a time a little later than the people who carry out their collections in the early part of the year, so recently I have not had any very major complaints.

Mr. Lambert: But this raises a point that concerns me. A couple of organizations who got in touch with me said: We are not the ones who determine when we are going to get the money; people send in contributions and they like to get receipts as soon as possible, but we are unable to issue the receipts because we have not received our number.

Mr. Benson: I know that this has created a problem in some instances. I certainly am appreciative of the co-operation the charitable organizations have given us in this regard, because the alternative was for me to go out and hire a lot of staff and train them. We have tried to do this on the basis that we do not have to increase our staff substantially in order to deal with it. What has happened in cases such as yours, in some instances at least, is that they have issued temporary receipts and replaced them by receipts with a number. It is not ideal, but otherwise we might have had to either put off enforcing the legislation for six months or hire a large staff at a particular moment and train them. I think it is moving forward reasonably well now at this stage.

The Chairman: You are satisfied that this approach is not hampering the work of the charitable organizations in getting collections from donors?

Mr. Benson: No, I think not. Where there are particular difficulties and people bring them to our attention, we try to deal with them on a particular basis.

Mr. Lambert: On the subject of these charitable donations generally I am quite in accord with what was done, having been involved with the Department years ago when this did present certain problems. In my part of the country where all contributions to churches were always handled on an envelope system and recorded it created no problems at all. As a matter of fact, the only problem raised was that people used to say, "Well, if others can get away with it, why can't we, in the usual ways?"

However, I would like to turn to something in connection with the estate tax; perhaps Mr. Linton will be able to advise me on this. With the introduction of the legislation in the Province of Alberta whereby the provincial government will reimburse the 75 per cent portion that is attributable to estate tax, leviable by the Province of Alberta, what progress is being made in establishing the necessary machinery?

Mr. Benson: The Province of Alberta has been in touch with us in this regard, so that they can get information on what their refunds should be. Is this your question?

Mr. Lambert: Yes.

Mr. Benson: We have agreed to supply them with the information.

Mr. Lambert: This is to expedite that—

Mr. Benson: Yes, we have agreed to do this for them.

Mr. Lambert: Is it a complicated process?

Mr. Benson: No, they need to have copies of our individual estate tax assessments applicable to individuals and assets in the Province of Alberta, and we have been able to do this. We have to make these calculations in any case because we have to allocate the estate tax across the various provinces to see how much each one is entitled to.

Mr. Lambert: All right; that is all, Mr. Chairman.

The Chairman: Mr. Gilbert, and then I will recognize Mr. Lind.

Mr. Gilbert: Would you consider as income a refund made by a province to an individual?

Mr. Benson: No.

Mr. Gilbert: It is not income?

Mr. Benson: No, it is not.

The Chairman: Before proceeding, I think we should have a motion to incorporate these tables, and so on, into the Proceedings.

Mr. Lambert: I so move.

Mr. Lind: I second the motion.
Motion agreed to.

Mr. Lind: Getting back to section 56 where a penalty is applied to the individual who perhaps missed some bond interest or some bank interest, does the Ottawa office keep any record of how the branches apply it? Are some branches applying this section more severely than others?

Mr. Benson: First of all I should like to point out that the number of times section 56 penalties are applied are very few. They are not applied to somebody who has forgotten to put in some bond interest. The letter that is sent out—and I promise to look at the wording of it again—is merely to point out to someone that if they are doing it intentionally the penalty could apply.

The penalty is applied with great caution, and there certainly is discussion among the various District Offices about how the penalty should be applied and when. It is not a serious problem because it is not applied a great many times; it is only when we are convinced that somebody is deliberately doing something that the penalty is applied. I should point out again that it is subject to appeal, so that our judgment in the application of penalties is not final.

Mr. Lind: How far down the line would you go? Would you go down to a person who missed \$10, \$25, or \$50. At what level do you start?

Mr. Benson: It would have to be a fair amount of money and would have to be very deliberate. Section 56 is not used that often; it is more often used as an alternative to prosecuting someone in the courts.

Mr. Lind: Do you have any figure on how much the government has collected in penalties, say, over the last year or two under section 56?

Mr. Benson: I do not have it here. Perhaps could dig the figure out for you, but we certainly do not have it right here.

Mr. Lind: Another matter that I am concerned about is that every year we get a notice in the Province of Ontario asking us to write to the District Taxation Office to get a confirmation of the amount of taxes that we have contributed.

Mr. Benson: We are now giving them copies of the assessment, I believe. This applied only to corporate, and I think we are now giving them copies of the corporate assessment. I remember that when I was in practice this used to be a nuisance, because a year or two later they would write to ask you for a copy of your notice of assessment for two years prior, and people were spending time digging it up. One of the changes we have made is to forward a copy of the assessment to the Province of Ontario, so they will not have to make these requests any more.

Mr. Lind: They do not have to come through the individual company any more?

Mr. Benson: Not any more, no.

Mr. Lind: Concerning economies, Mr. Minister, is there any way within the Department of National Revenue that we could combine the audit, say, of the District Taxation Office with the auditor coming in for the Unemployment Insurance Commission, and cut it down to one audit instead of having two?

Mr. Benson: We have looked into this from time to time. The audit of the Unemployment Insurance Commission is, of course, the responsibility of the Unemployment Insurance Commission and I would simply indicate that we have had discussions about this. This is their legal responsibility; the other audit is our legal responsibility and they are done on a different basis because ours is generally a test audit. But I have thought also that an Unemployment Insurance audit is very similar to a Canada Pension Plan audit, and there might be some method of combining the two. I can only say that discussions have taken place about this matter but no decisions have been made.

Mr. Lind: But it is under active consideration?

Mr. Benson: It is under continuous consideration.

Mr. Lind: Thank you, Mr. Minister, I think that is a very worthwhile effort.

The Chairman: Next on my list is Mr. Cameron, but perhaps since it is close to one o'clock you may prefer to adjourn.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I have a question that will not take long to clear up. Have you any statistics on the number of personal income tax returns which result in a refund?

Mr. Benson: It is in the statement, I believe; 4.25 million out of 7.75 million.

Mr. Cameron (Nanaimo-Cowichan-The Islands): My next question is whether you have any information on how many of those are refunds on income tax paid by payroll deduction? The reason I am asking is that when I was working in industry—and that is not very long ago; about 13 years—invariably, every year, I had a refund of my income tax, and I gather that every one of my fellow workers was over-taxed every time and it was returned. I wonder whether this is still the situation?

Mr. Benson: The majority of the refunds would be on employees. The reason for this is that when they make out their TD 1 and file it with their employer they cannot calculate in it anything that may happen with regard to donations and medical expenses beyond the \$100, or increases in their exemptions due to a child becoming 16 years of age, and the fluctuations, so the majority of the refunds do arise because of this.

An hon. Member: You do not deliberately over-assess?

Mr. Benson: No, we do not deliberately set the tables up so that an overpayment result.

Mr. Cameron (Nanaimo-Cowichan-The Islands): No, no; I was wondering whether it was a shortcoming on the part of the employer that he was not taking enough care.

Mr. Benson: No, I do not think so. I think you will find that people using the tax deduction tables take the standard allowance of \$100 for donations and medical expenses, and then give \$150 or \$200 and so have a refund; or there has been a change in their exemptions, and their salary rates may fluctuate throughout the year.

Mr. Cameron (Nanaimo-Cowichan-The Islands): If the salary rate fluctuates then the employer should be taking note of that.

Mr. Benson: No, but there may be unemployment for a month.

Mr. Clermont: Mr. Chairman, I have a supplementary question. Even if the employer deducts more, he does not get anything because he has to remit it to the Government.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I am not suggesting that he does. I am just suggesting that it is sometimes rather an inconvenience to the taxpayer because even a fairly small refund is something he could have been using all along. Also it would, I think, curtail quite a lot of unnecessary work if the number of refunds could be cut down.

Mr. Benson: It would save us some work if the refunds were cut down, but with the computer we can deal with them pretty fast.

Mr. Cameron (Nanaimo-Cowichan-The Islands): That is all, Mr. Chairman.

The Chairman: Gentlemen, we are not in a position to clear consideration of this Item now. I believe a bill has been referred to us by the House dealing with some insurance company that I suggest to the Committee we attempt to deal with on Tuesday morning. So, perhaps we can reconvene on Tuesday morning and first spend whatever period is required to clear consideration of this portion of the estimates. I will ask the Minister to come back and we could adjourn until that time. Does that meet with the approval of the Committee?

Also, I wonder whether members of the Steering Committee who are here will just remain behind for a moment, and we will fix the wording of the recommendation to the House about the Kennedy Round resolution. We are now adjourned.

APPENDIX

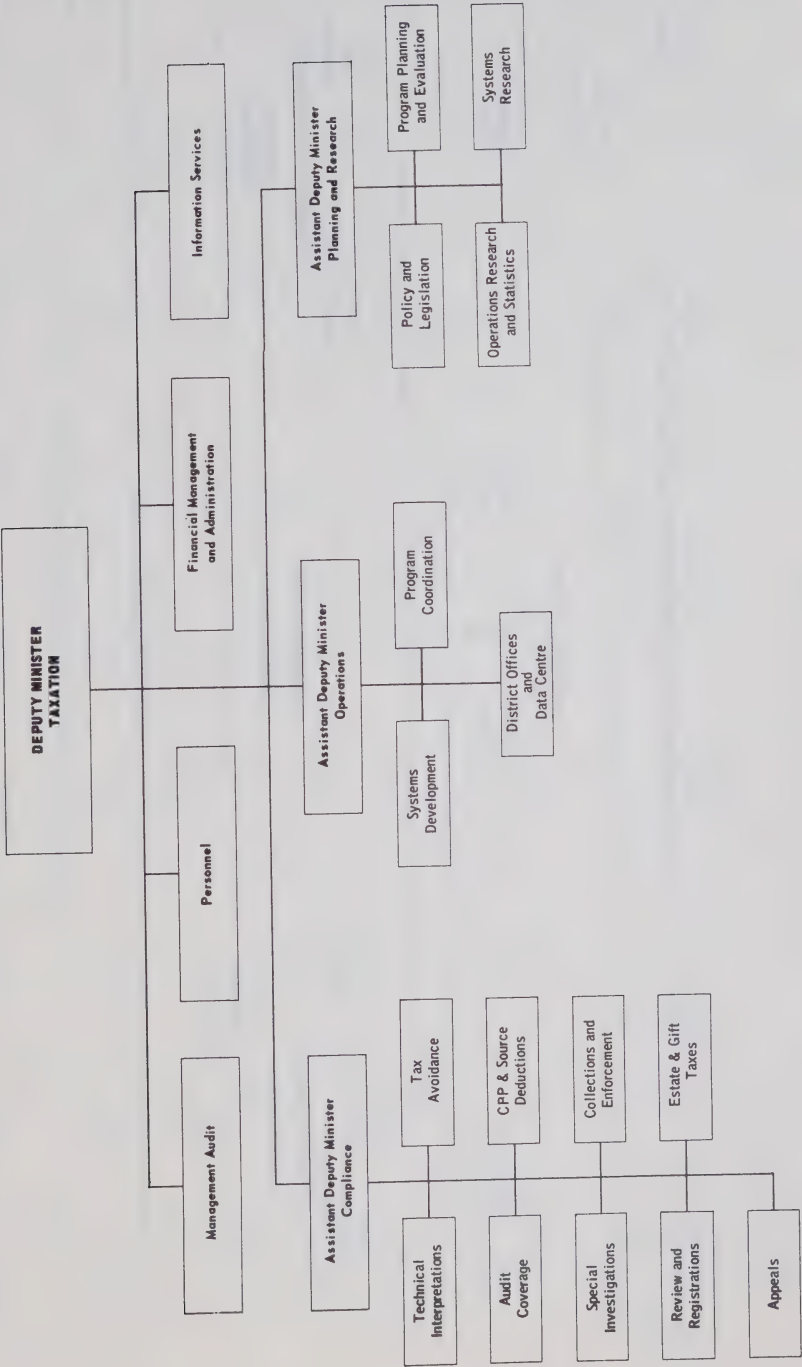
TREASURY OFFICE
DEPARTMENT OF NATIONAL REVENUE
CUSTOMS AND EXCISE DIVISION
Comparative Statement of Customs and Excise Revenue

	March 1966	March 1967	Increase	Decrease	April 1965 to March 1966	April 1966 to March 1967	Increase	Decrease
Customs Import Duties.....	80,842,007.10	81,352,670.63			750,989,860.03	850,677,957.43		
Less Refunds and Drawbacks.....	7,059,162.78	8,386,676.54			65,470,470.21	73,092,264.32		
	73,782,844.32	72,965,994.09		816,850.23	685,519,389.82	777,585,703.11	92,066,313.29	
Sales Tax.....	194,514,877.90	226,215,337.13			1,976,078,532.85	2,147,383,848.06		
Less Refunds and Drawbacks.....	5,947,978.34	7,035,724.84			58,863,767.81	74,302,804.51		
	188,566,899.56	219,182,612.29	30,615,712.73		1,917,214,765.04	2,073,081,043.55	155,866,278.51	
Other Excise Taxes.....	23,843,838.76	29,264,884.13			296,525,831.51	316,066,435.62		
Less Refunds and Drawbacks.....	49,163.29	39,948.01			347,733.29	485,454.68		
	23,794,675.47	29,224,936.12	5,430,260.65		296,178,098.22	315,580,980.94	19,402,882.72	
Excise Duties.....	44,532,628.59	44,059,084.42			451,959,960.70	467,876,675.29		
Less Refunds and Drawbacks.....	475,514.40	736,856.68			6,074,526.36	6,896,646.10		
	44,117,114.19	43,322,224.74		794,889.45	445,885,434.34	460,980,029.19	15,094,594.85	
Sundry Collections.....	360,230.92	301,158.46			2,354,243.44	2,250,517.21		
Less Refunds.....	705.35	647.73			5,708.48	6,785.29		
	359,525.57	300,510.73			2,348,534.96	2,243,731.92		
Net Totals.....	330,621,059.11	364,906,277.97	36,045,973.38	59,014.84	3,347,146,222.38	3,629,471,488.71	282,430,069.37	104,803.04
Net Increase.....			34,375,218.86	1,670,764.52			282,325,266.33	104,803.04

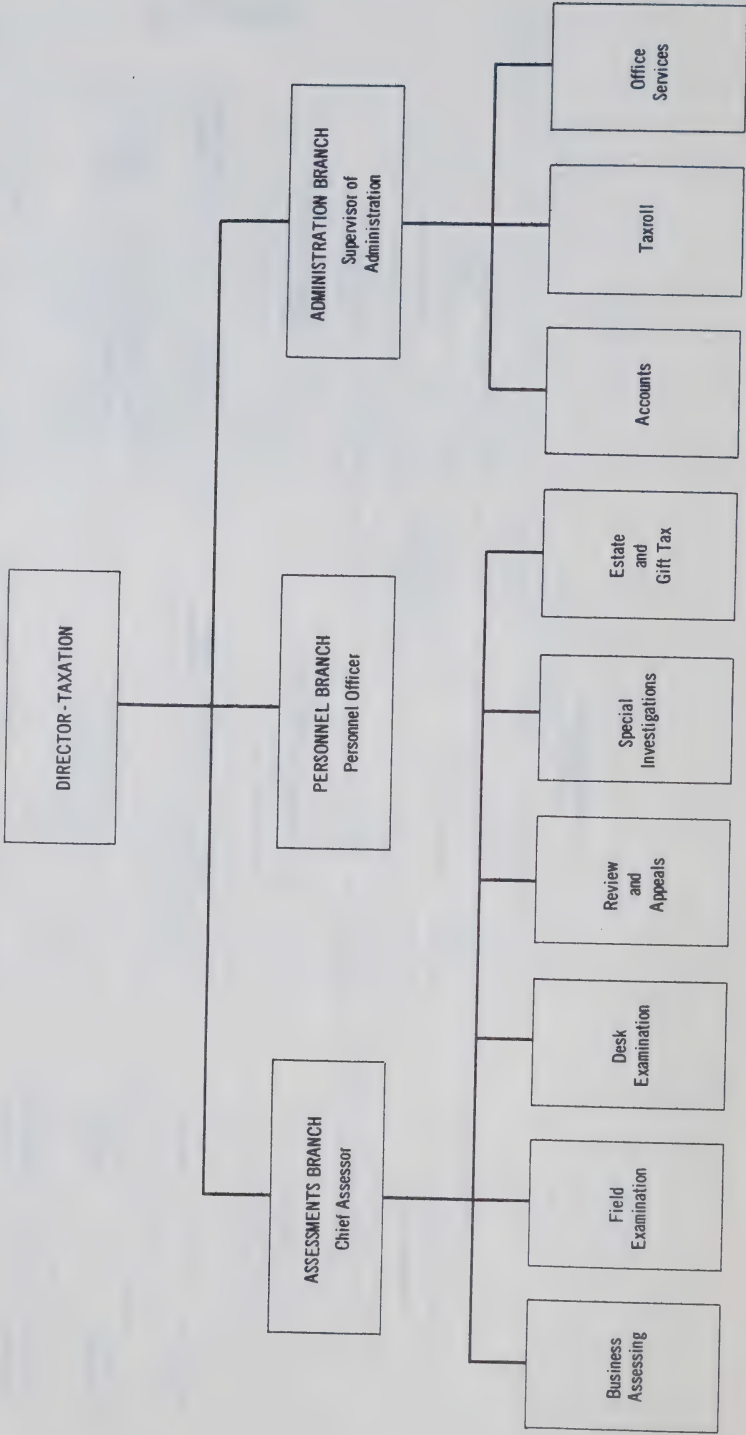
Section Head—Accounting
June 13, 1967

J. P. CARON
Chief Treasury Officer

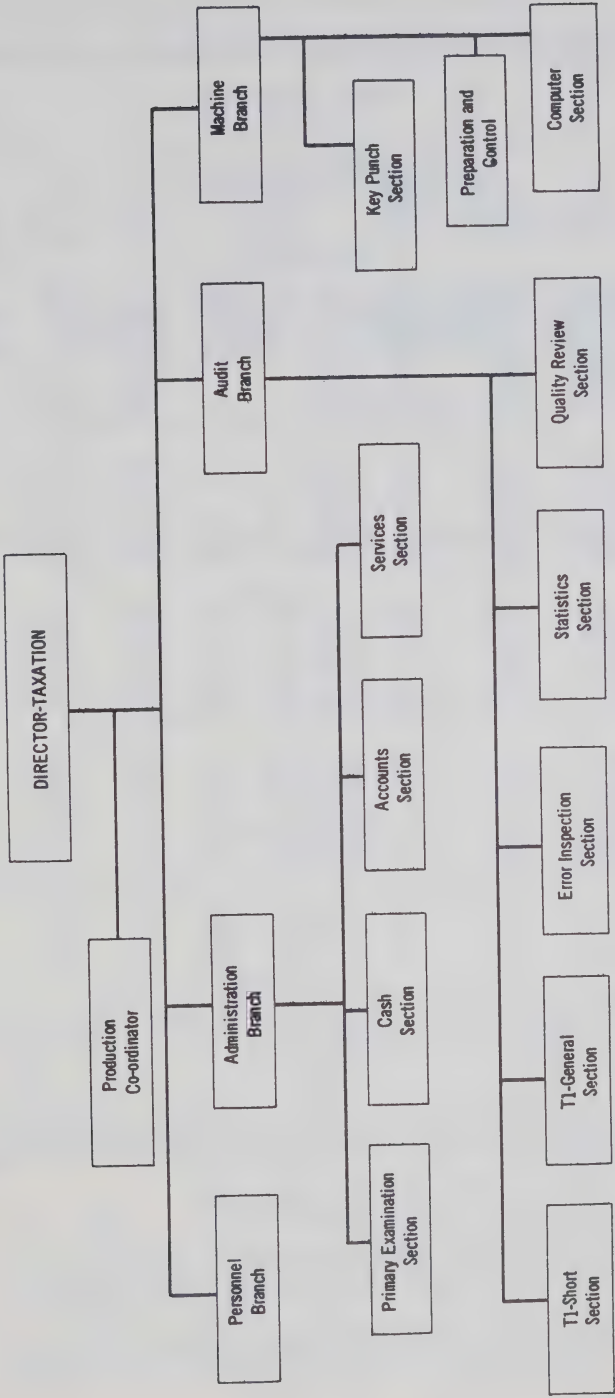
APPENDIX B



A TYPICAL DISTRICT OFFICE ORGANIZATION



TAXATION DATA CENTRE ORGANIZATION



REVENUES, COST OF COLLECTION, STAFF EMPLOYED AND RETURNS FILED

FISCAL YEARS 1947-1967

Fiscal Year Ended March 31 ^a	Net Revenue Collections ^b	Total Cost of Collection ^c	Cost to Collect \$100	Total Employees At March 31			Taxation Year ^a	T1 & T2 Returns Filed ^d	Total Returns Filed Per Employee ^e	Cost per Return Filed
				Continuing Temporary						
	\$ Million	\$ Million	\$	No.	No.	man- years		000	No.	\$
1947	1,435.7	13.7	.96	7,430	—	—	1946	3,291	443	4.16
1948	1,317.7	19.6	1.49	10,478	—	—	1947	3,678	351	5.33
1949	1,368.3	28.1	2.05	11,704	—	—	1948	3,772	322	7.45
1950	1,300.8	28.1	2.16	10,629	—	—	1949	3,863	363	7.27
1951	1,556.9	25.2	1.62	7,011	—	—	1950	3,979	568	6.33
1952	2,204.0	21.9	.99	5,930	335	111	1951	4,265	706	5.13
1953	2,594.0	21.8	.84	5,918	799	227	1952	4,553	741	4.79
1954	2,618.0	22.9	.88	6,134	1,164	368	1953	4,839	744	4.73
1955	2,457.0	25.7	1.05	6,301	1,207	383	1954	4,968	743	5.17
1956	2,501.9	26.1	1.04	6,268	1,212	358	1955	5,169	780	5.05
1957	3,017.2	28.4	.94	6,195	1,303	392	1956	5,470	830	5.19
1958	3,066.2	31.2	1.02	6,172	1,434	446	1957	5,758	870	5.42
1959	2,709.5	31.8	1.17	6,018	1,551	460	1958	5,767	890	5.51
1960	3,148.2	31.8	1.01	5,850	1,492	463	1959	5,943	941	5.35
1961	3,493.7	34.3	.98	5,791	1,528	494	1960	6,066	965	5.65
1962	3,588.7	35.6	.99	5,757	1,536	590	1961	6,162	971	5.78
1963	3,849.7	38.2	.99	5,640	1,393	667	1962	6,389	1,013	5.98
1964	4,141.9	40.7	.98	5,760	1,865	946	1963	6,580	981	6.19
1965	4,940.7	42.7	.86	5,909	2,067	1,022	1964	6,905	996	6.18
1966	5,336.1	45.4	.85	6,453	2,314	1,096	1965	7,355	974	6.17
1967	6,122.5	52.0	.85	7,177	3,203	1,296	1966	7,992	943	6.51

N.B. Fiscal years 1966 and 1967 exclude revenue collections on behalf of the Canada Pension Plan and Costs charged to the Plan as follows:

Fiscal Year	Revenue Collected \$ Million	Costs Charged to C.P.P. \$ Million
1966	94.9	1.8
1967	587.5	5.3

^aFor the purpose of this analysis and particularly for calculating the number of returns filed per employee, it has been assumed that the number of employees at the end of a fiscal year will deal with the returns for the immediately prior taxation (calendar) year.

^bFiscal years 1945-52 include Excess Profits Tax collections.

^cCosts of Tax Appeal Board are included beginning 1949.

^dAs at December 31 of calendar year in which bulk of returns filed.

^eIn calculating returns filed per employee, temporary employees are included in terms of equivalent man-years as estimated.

SOURCES: *Taxation Statistics*, Monthly *Statistical Report*, Records of Statistics Section.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

TUESDAY, JUNE 27, 1967

RESPECTING

Main Estimates, 1967-68, Department of National Revenue

Including

THIRD REPORT TO THE HOUSE AND APPENDICES C and D

The Honourable E. J. Benson, Minister of National Revenue
and

★ WITNESS:

★ From the Department of National Revenue, Taxation Division:
Mr. D. H. Sheppard, Deputy Minister.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON
FINANCE, TRADE, AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Gilbert,	Mackasey,
Beaulieu,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Johnston,	Monteith,
<i>Cowichan-The Islands</i>),	Laflamme,	More (<i>Regina City</i>),
Cantin,	Lambert,	Noël,
Comtois,	Latulippe,	Tremblay,
Flemming,	Lind,	Wahn—(24).
Fulton,	Macdonald (<i>Rosedale</i>),	

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

MONDAY, June 26, 1967.

Ordered,—That the name of Mr. Beaulieu be substituted for that of Mr. Valade on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

WEDNESDAY, June 28, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

THIRD REPORT

In accordance with its Order of Reference of May 25, 1967, your Committee has considered the items listed in the Main Estimates for 1967-68 relating to the Department of National Revenue.

Your Committee has held three meetings from June 20 to June 27, 1967 and has heard the Honourable E. J. Benson, Minister of National Revenue and the following witnesses:

From the Department of National Revenue:

Customs and Excise Division: Messrs. R. C. Labarge, Deputy Minister; J. G. Howell and G. L. Bennett, Assistant Deputy Ministers.

Taxation Division: Messrs. D. H. Sheppard, Deputy Minister and D. J. Costello, Comptroller.

Your Committee commends to the House for its approval the Main Estimates, 1967-68, of the Department of National Revenue.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 5 to 7 inclusive*) is tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, June 27, 1967.

(7)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Cantin, Clermont, Comtois, Flemming, Gilbert, Gray, Irvine, Lambert, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Noël, Tremblay (*Matapédia-Matane*), Wahn—(16).

In attendance: The Honourable E. J. Benson, Minister of National Revenue. *From the Department of National Revenue, Taxation Division:* Messrs. D. H. Sheppard, Deputy Minister; G. J. McKenzie, Administrator, Canada Pension Plan; J. R. Morrissey, Superintendent, Programs & Procedures; J. F. Harmer, Assistant Director, Assessments Branch; W. I. Linton, Administrator, Estate Tax; M. S. Sprott, Assistant Director, Planning & Development; R. S. Gunn, Superintendent, Financial Services; D. J. Costello, Comptroller.

The Committee resumed consideration of Item 5 of the Main Estimates, 1967-68, of the Department of National Revenue.

The Minister was questioned, and was assisted by Mr. Sheppard in answering questions.

In answer to a question about other Government Departments to which information from income tax returns was made available, the Minister stated that he had recently answered a question in the House on this subject.

Ordered,—That the Minister's answer to the question in the House be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix C*).

Item 5 was carried.

The Chairman called Item 10—

Tax Appeal Board—Administration expenses—\$193,400

In answer to a question by Mr. Macdonald (*Rosedale*) concerning the relationship between the total number of assessments and the resulting number of appeals, Mr. Sheppard agreed to provide the information later to Mr. Macdonald and the Clerk.

Ordered,—That the information requested by Mr. Macdonald (*Rosedale*) be included as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix D*).

After further questioning of the Minister, Item 10 was carried.

Ordered,—That the Chairman report to the House the Main Estimates, 1967-68, of the Department of National Revenue.

The Chairman thanked the Minister and his officials who then withdrew.

The Committee then proceeded to consideration of a private bill (C-114).
(*See Issue No. 8*).

At 1.25 p.m. the Committee adjourned to Thursday, June 29, 1967 at 11.00 a.m.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, June 27, 1967.

• (11.10 a.m.)

The Chairman: I will call the meeting to order. Now, gentlemen, do the Members of the Committee have further questions or comments at this time with respect to Item 5, the taxation division? Mr. Macdonald?

Mr. Macdonald (Rosedale): A question to Mr. Sheppard. Mr. Sheppard, the officials under your administration have a very considerable responsibility in dealing with the public and, as a Member, from time to time I have complaints from members of the public as to the courtesy and attitude of members of the Department of National Revenue. What procedures do you have within your Department to insure that members of the public get prompt, courteous and helpful service from the staff at the district taxation offices and elsewhere?

Mr. D. H. Sheppard (Assistant Deputy Minister, Taxation Division, Department of National Revenue): Mr. Chairman, to begin with, when our staff are employed we give them a training program, an indoctrination, and one of the matters that we stress very forcefully is that the public are to be treated courteously and given all possible consideration. Of course, we also impress upon them that the collecting of the taxes is not an easy job and, therefore, they have to be that much more careful in their dealings with the public in making sure that they adhere to the rules we have set down because with the best of goodwill they can be accused of an attitude which is not in the best interest of the government, or the Department, or the taxpayers if they do not give them courteous treatment because of the fact that they are asking them to pay taxes which they might not want to pay. So, the first matter is the indoctrination of the employees who are on this work. We think that is the main thing.

In addition to that we set up information programs at the counter and over the telephone to give people information that they might want to help them out in the filing of tax returns. We have extended that quite a bit further this year in open line programs,

long distance telephone calls and matters of this kind to try to be helpful as well as collect taxes.

Mr. Macdonald (Rosedale): What happens in the event of complaints?

Mr. Sheppard: It depends on whom they are made to. Each director in the district office, who is a responsible official is supposed to deal with the complaints on the basis of the information that he receives. He inquires into them and, if necessary, makes the corrections that should be made.

Mr. Macdonald (Rosedale): Do you have a procedure for referring complaints for further attention, and what kind of discipline procedure do you have for the employees?

Mr. Sheppard: Each district office director is responsible for the carrying out of the functions in his own office. If the complaints are referred to the Minister or to head office then we deal with them and get a report from the district office as to what happened and find out what they have done about it. We also make suggestions as to what they should do if we consider it appropriate. But each director is supposed to deal with these things on his own initiative as he does in all matters. He is completely responsible in his own area and we assume that if the taxpayers do not complain above him to head office or to the Minister they are satisfied with the treatment they are getting in the district office.

Mr. Macdonald (Rosedale): Do you have any program of anonymous periodic checking of the district taxation offices to see what kind of result you get from the—

Mr. Sheppard: We do not have any anonymous check; we have our inspection service.

Mr. Macdonald (Rosedale): What I am thinking of is that I am sure that they are very good boys when they are being examined by the inspection service, but how about when an apparently humble member of the public comes up? Would it not be a good idea to have periodic checking to make sure that they live up to the high standards that you have set forth?

Hon. E. J. Benson (Minister of National Revenue): Perhaps I could answer this.

We get very few complaints from the public of their treatment by the taxation offices when you consider we deal with 7½ million taxpayers in Canada. I can tell you the number of letters I get complaining about treatment from the tax office is really very small; it amazed me how few there are. Now, mind you, everybody who does not think he is fairly treated will not complain, but I think that the number of letters I get is an indication. I would say that in a year, I do not get more than 15 or 20 letters complaining about—

Mr. Macdonald (Rosedale): From members of the public.

Mr. Benson: That is right.

Mr. Macdonald (Rosedale): But how about from Members of Parliament? It seems to me I have probably written you as many as that.

Mr. Benson: I think you have written as many as anybody.

The Chairman: If I may interject here, I think I, myself, have brought to your attention, Mr. Minister, from 10 to 15 complaints on an annual basis.

Mr. Benson: Yes, you are second in the complaint department.

The Chairman: It may be that more Members should be more vigorous in bringing these complaints to the attention of the Minister if they exist. I do not know any reason why our own district, or that of Mr. Macdonald, should be more productive in that regard than others, as I am sure the officials are of no lesser standard than in the other areas.

Mr. Macdonald (Rosedale): That is fine, Mr. Chairman.

The Chairman: Mr. Lambert.

Mr. Lambert: This is a question I raised with the Minister by correspondence and I think the answer could be given here. It deals with the recognition of payment by teachers towards their union fund, or their association fund, which is a permissible deduction for income tax purposes. Under the laws of the province the deduction is authorized to be made by the School Board. It is a deduction at source paid over, in the case of Alberta, to the Alberta Teachers' Association. But there

has been no uniform policy with regard to the district offices' accepting the T-4 slips as evidence of payment of these dues, and this has created a good deal of confusion. Perhaps a reply to this is in the mill to me, but I think it should be raised here. If the deductions must be made by the School Board under the provincial regulations, then it seems to me that the evidence of the deductions as shown by the T-4 slip should be sufficient.

Mr. Benson: We will accept them. We have written to you, or are in the process of writing to you on this basis, that we will accept them and we will instruct our offices in the particular area where the difficulties arise that they are acceptable as shown on the T-4 slip.

Mr. Lambert: Thank you, Mr. Minister.

The Chairman: Now, are there further names for the list? Mr. Gilbert.

Mr. Gilbert: Mr. Minister, I have had some complaints from pensioners who are required to file quarterly payments of the estimated tax that they will be required to pay. In some cases, the total tax will amount to about \$20 for the year and they are making quarterly payments of \$5. Is there any way in which they can pay this tax once a year rather than be forced to make a quarterly return?

Mr. Benson: Well, first of all, the basic tax system in Canada and the way we collect our revenue is through deductions at the source. So, the ordinary fellow has his tax taken off every month and it is sent in to the government the next month—by the 15th of the next month, or earlier than this—and the government has the use of the money for the year. To be equitable in dealing with the person in business, Parliament has seen fit to decide that he should pay on a quarterly basis.

It used to be, a long time ago, that we never calculated interest on small amounts because it was just too much work; but now the interest is turned out automatically by the computer, but we never charge interest to anybody if there is less than \$1 involved. Your person who is paying \$20 a year, if he paid it all at the end of the year, would not have any interest to pay because it would be less than \$1 if you calculate it quarterly.

Mr. Gilbert: Do they have the option of paying quarterly, or can they wait until the end of the year?

Mr. Benson: No, the law is that they must pay quarterly or pay interest on the thing;

but where the computer throws out interest owed by somebody of 78 cents, for example, we ignore it. We do not go down below the \$1 figure. But the law requires them to pay quarterly, and after all we have to enforce the law if it is decided by Parliament. I think it is fair, over-all. It might seem unfair when you take a look at a little case, but if you take it over-all, when the fellow earning \$10,000 a year has it deducted every week, the person who has \$5,000 from investments should pay at least on a quarterly basis.

The Chairman: Mr. Minister, it is interesting that Mr. Gilbert raised this point because I had somebody come to see me on the weekend who received a notice asking him to pay \$1.67. This complaint really was of the public relations type that Mr. Macdonald raised. He told me that he was retired and that his income came from several pensions—one from his work, and one from the Government Old Age Security scheme. He said that he and his wife budgeted very carefully to meet their requirements as they came due, and that he was unhappy about the fact that he had received no notice whatsoever that he was going to be called upon to make quarterly payments, and that if he did not he might face this interest payment. While the amount was very small because he was on a limited income, in effect it threw his budgeting out of whack, and he felt, as I say, that he and others like him should have received some notice that they were going to be called upon to do this so that they could have made provision or attempted to avoid the interest payment.

Mr. Benson: Yes, I used to have a good many complaints about this. We made an arrangement with the people who pay the Old Age Security Pension that when the first pension cheque goes out they tell people that they should take a look and see if this puts them into a taxable bracket, because they might then have to pay income tax instalments. I do not think we can go much further than that. This would reach everyone upon his receiving his first cheque from the Old Age Pension, the flat rate Old Age Pension, and I really do not know what you can do beyond that. It is also shown every year in the T-1 Short, for example, that you have to pay instalments, and so on. But it is a matter of public relations as to how you get to everybody. We try to get to everybody. We thought the method of putting a little note in the first Old Age Pension cheque would help, because some people who are on pension and

then all of a sudden get the extra \$900 a year or whatever it happens to be, are thrown into a taxable bracket, and they have to pay instalments.

The Chairman: What about people who were receiving the pension at the time you began to look at this more closely?

Mr. Benson: This is where we had some trouble, because when we started picking up interest and charging people interest—and we did not just start this, it is just that the computer allowed us to do this where we should have been doing it in the past but it was just too expensive to do it—and we got down to the \$1 amount, I had complaints at that time and then we started putting the notice in with the first Old Age Pension cheque. Really, I have not had that many complaints about this. There are some every year where somebody all of a sudden has to pay interest. You get complaints, for example, from somebody who says: I have bond interest, I do not get it until November, but I have to pay quarterly instalments. But I do not think that you can take care of every situation.

The Chairman: I am sorry, Mr. Gilbert, I thought perhaps you had made your point.

Mr. Gilbert: The Carter Commission makes a recommendation with regard to capital gains with certain exceptions. Now, we have many examples of capital gains these days and in some cases you determine the gain as income. If I remember correctly—it is some time since I have had a look at the Act—I think it is income if it is within the ordinary course of business?

Mr. Sheppard: I think that may have been depending on the nature of the trade.

Mr. Benson: Yes, depending on the nature of the trade.

Mr. Gilbert: I would like to know how you determine income with regard to a person who has a job and who is participating in some real estate deals, and also participating in some stock transactions?

Mr. Benson: First of all, generally speaking we do not tax stock transactions unless a person is a broker or something and is in the business of it; so the person casually buying stock we do not tax.

Of course, these are all matters of law; they are not matters for our determination and we end up at the Income Tax Appeal Board with

a good many, but we usually take a look at the intention of the person involved. If four or five fellows go out and buy a piece of real estate and subdivide it, then they are in business and we tax them. But each case has to be looked at on its own and indeed I think that you will find a great many decisions both ways before the Income Tax Appeal Board, because the taxpayer disagrees with our treatment or we disagree with what he has done, and it ends up at the Appeal Board. It is a very difficult area. The most difficult area is determining what is income and what is capital gain. Mind you, a capital gains tax does not make it any different if you have a differential rate such as they have in the United States; they still have the problem because a person wants it to be a capital gain instead of income because there is such a tremendous differential in tax rates. It is one of the most perplexing problems and one that I think will be with us; I think it is very difficult to get rid of.

Mr. Gilbert: Just how would you know a person is participating in real estate transactions if he does not declare it?

Mr. Benson: It is recorded at the Registry Office. Where we are looking at a particular taxpayer and he seems to have a lot of income, or we have some reason to look into it, then of course we can go and check with the Registry Office and see what property has changed hands.

Mr. Macdonald (Rosedale): Do you have someone fishing all the time in the Registry Offices?

Mr. Benson: No, we really do not. We look at specific cases, but we have no fishing officers.

The Chairman: Just casting. Do you have a further question, Mr. Gilbert? Mr. Irvine.

Mr. Irvine: Mr. Chairman, I would like to ask the Minister a couple of questions here. He mentioned a moment ago that they are using some computers in some of their work in the offices. I would like to know if these computers are mainly purchased or rented?

Mr. Benson: Of the computers we have at Head Office, which are the big ones, we have a small one rented and the rest are all purchased.

Mr. Irvine: They are all purchased?

Mr. Benson: We own them, yes.

Mr. Irvine: On page 374, down near the bottom, we have "Office Stationery, Supplies, Equipment and Furnishings", of which there has been an increase there of very nearly \$400,000 this year over last. Does that represent some computer equipment?

Mr. Benson: Some of it might, but one of the things we are doing which is going to end up saving us a lot of money is that we are changing the filing system in all the District Taxation Offices where there were drawer files and people spent a tremendous amount of time pulling these drawers out. One of the things we are doing is that we are converting from that to an open type of filing which we first of all entered into on a test basis. It is now in Toronto, in the biggest Tax Office we have, and we are putting it in our other offices across the country.

I can tell you what the whole amount is: Office machines and equipment, \$46,000; re-designing public forms, \$119,000; stationery and supplies, \$131,000; internal forms, \$65,000; subscriptions, \$54,000; furniture and furnishings, \$140,000. That makes \$555,000. Then there is new data processing equipment which is going to be a rental—a new machine we are getting—\$323,000.

Mr. Irvine: Then, five or six items below that it says "Acquisition of Equipment... \$77,500.

The Chairman: That seems to have gone down.

Mr. Benson: Oh, I am sorry, the figures I gave you were wrong; you are under Customs and Excise.

Mr. Irvine: Am I?

Mr. Benson: Yes.

Mr. Irvine: Oh, yes. Well, then, I am down under the Customs vote.

Mr. Benson: Well, I am sorry about that because I was reading the taxation figures for Customs and Excise.

Mr. Irvine: This still goes along with my line of thinking on this. On the next page, 375, in spite of the fact that we are using more computer equipment than we have in the past, and it is normal that we should, how do you justify the fact that there is an increase of approximately 6 per cent in the manpower of the Department—the personnel?

Mr. Benson: There are reasons for this. First of all we have taken on the Canada

Pension Plan, which involves additional manpower. Secondly, the number of taxpayers in the country is going up all the time. Now, a computer does not do everything; we will have to do the initial assessing at the Data Centre. Then, where there are errors in the returns, or questions to be asked they have to be sent out to the district offices to be looked into. But I think the basic reason is the additional task we have undertaken with the Canada Pension Plan, and we do recover our expenditures in this regard from the Canada Pension Plan as such.

• (11.30 a.m.)

Mr. Irvine: What would be roughly the increase in the number of taxpayers this year over a year previously? Do you have the rough figures?

Mr. Benson: About 10 per cent.

Mr. Irvine: About 10 per cent. Then your increase here is lower than the increased number of taxpayers. Thank you very much.

The Chairman: Mr. Macdonald, do you have a question?

Mr. Macdonald (Rosedale): Since the Canada Pension Plan came into operation, has the number of returns filed exceeded the expected increase in the returns? In other words, has there been a sudden flood of rate of returns as a result of the Canada Pension Plan?

Mr. Benson: It is a little higher this year. There are some people who have never filed returns before who are filing now, but I could not give you the figures.

Mr. Lambert: Is it an incentive?

Mr. Benson: It is an incentive to get into the Canada Pension Plan.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Mr. Benson, I was wondering if there have been any steps taken towards including as deductible items the cost of certain categories of workmen's tools. I have in mind machinists' tools, carpenters' tools, which are very expensive?

Mr. Benson: This is, of course, a question of policy which is not basically the responsibility of my Department.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes.

Mr. Benson: But I could tell you, Mr. Cameron, that this matter has been raised and discussed every year that I have had

anything to do with the making of a budget, but it is a very difficult matter to deal with, because once you break through—you know, you get down to the stage where the fellow has to buy his own briefcase or his own pencils... The Carter Commission does have some suggestions in this regard.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I know that.

Mr. Benson: But, I can assure you that it is a problem, a perplexing problem, that is considered every year, but you do not know where to stop. It is very difficult. I have a great deal of sympathy with, for example, a mechanic who has to buy his own tools.

Mr. Cameron (Nanaimo-Cowichan-The Islands): A mechanic's tools are really expensive.

Mr. Benson: But the amount of work involved in trying to deal with the relatively few number of taxpayers I guess is the reason that Ministers of Finance over the years have not decided to do this; along with the problem of getting—you know, a foot in the door sort of thing, and where do you end.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Right.

Mr. Benson: You know, you have to have a suit to be a Member of Parliament to be in the House of Commons. Where do you end this?

Mr. Cameron (Nanaimo-Cowichan-The Islands): Is there no way of categorising it by value?

Mr. Benson: Well, Carter has this again. It is something that is going to be said in the future. It has to be, because it is a problem, particularly with mechanics and plumbers.

Mr. Cameron (Nanaimo-Cowichan-The Islands): A lot of the tools are getting more and more expensive now.

Mr. Benson: That is right.

The Chairman: There are also such things as travelling allowances for construction workers and a number of areas.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes, a number of things in that area. In many cases in my own area, for instance, the change in the logging industry has necessitated loggers having a car and operating a car, and it does seem to me they have as much right to that as a doctor or anybody else.

Mr. Benson: Yes. It is a very difficult area, really, and it is one that Carter looked into, has made some recommendations, and the government will ultimately have to decide what it does in this area.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Thank you, that is all.

The Chairman: I have no further names on my list and I wonder if I might—I am sorry, Mr. More?

Mr. More (Regina City): I was just wondering; at the top of page 376: "Telephones and Telegrams" has an increase of more than 50 per cent, and "Informational Services" an increase of nearly \$200,000.

Mr. Benson: One of the things we have done in "Telephones and Telegrams" is to instal a system this year which has worked out very well, whereby people in outlying areas can phone the district taxation office to which they report through a Zenith line and get taxation information. We used to have a system of sending people out to small towns and setting up an office there. We found this did not work very well because the offices were not used to that extent and we had two or three employees just sitting there. So we started using Zenith lines, where you can dial in free, at least in some areas; then we intend to expand this in the future and get taxation information from the district taxation office.

Now, under the "Informational Services", it is the advertising that we programmed that we have been building up in order to try to get better taxpayer compliance and better relationship with the public. We have been building that up over the past several years, and personally, I think it has been very successful and people are developing a little different attitude towards dealing with the taxpayer. And part of the advertising is Canada Pension Plan which will be recoverable—\$225,000.

Mr. More (Regina City): That is what I was going to ask you if that was, in fact, a non-recurring item because of the Canada Pension Plan.

Mr. Benson: Well, there is \$225,000 of it which may be recurring, but it is recoverable from the Canada Pension Plan.

Mr. More (Regina City): Yes.

Mr. Lambert: I have a supplementary question on that point. Have you thought in the formulation of your estimates, since you already indicated it is recoverable from Canada

Pension, that you could extract from your true estimates all those items that are attributable to the Canada Pension Plan and block them out, as such, so that we can tell what Canada Pension Plan is costing?

Mr. Benson: It is blocked out only to the extent of a lump sum on page 376 where it is \$938,000. We have picked out from the various items the amount that will be recoverable, and a total \$938,000 and there is no reason why I could not supply members of the Committee, if they wish it, with details of the items we have picked out.

Mr. Lambert: Yes, you block it out there, but then there is another item on page 377: "Less the amount recoverable from the Canada Pension Plan".

Mr. Benson: Yes, that is the district offices.

Mr. Lambert: I think it would be interesting to know just what the Canada Pension Plan is going to cost without having to go combing through the estimates here and there and picking up these little items. This is merely if there could be a summary of all the expenses of the Canada Pension Plan so that you could make a reasonably intelligent assessment, or get the information...

Mr. Benson: Yes. The Canada Pension Plan requires an annual report, and the total cost of the Canada Pension Plan will not come from just my Department, because there will also be Health and Welfare who are administering the benefits side, and they will certainly show up in the annual statement of the Canada Pension Plan.

Mr. Lambert: Yes, but that is always one year behind, Mr. Minister. You know how these annual reports get in. In 1967 you are considering the report that is filed for March 31, 1965, and when someone...

Mr. Benson: Well, certainly we will take a look at it and consider your suggestion.

The Chairman: Mr. More, have you any further questions?

Mr. More (Regina City): I have one question. I notice that Mr. Sheppard in his initial statement refers to "the highly-trained auditing staff of the Department." In view of the new bargaining procedures adopted and a lumping together in classification, what problems have you faced in this in regard to your auditing staff? I have heard rumbles and rumours that there is dissatisfaction because they are lumped in with other people in other

categories, and the sophistication of their work and their knowledge is on a much higher scale.

Mr. Benson: They have not done the assessor group yet; the reclassification has not been done there. It may be fears in anticipation, I think.

Mr. More (Regina City): Well, I have had intimation then that there are fears in anticipation.

Mr. Benson: Generally, I would say, the reclassification is done by the Civil Service Commission, under which, as you know, the Bureau of Classification has been, although under the new law it becomes the responsibility of the Treasury Board. But, I think the job that has been done has been reasonably good in the areas where they have carried out reclassification. The reason for reclassification is simply so that we can get into collective bargaining, and also perhaps it was overdue in the Civil Service. I should also point out that we do not end up, through reclassification—have not in the groups that have been reclassified—paying in less money. The reclassification ends up adding about 3 per cent to our pay roll. There may be individual cases which have had to be...

Mr. More (Regina City): As I understand, anyone in business has men from different federal departments calling on him—there is a classification of Treasury Officers, and Officers coming. And I know from experience that in the case of your department auditors in regard to taxation, their knowledge and needs are far greater than for someone coming round to check a stamp book, for instance. And yet I understand that there are rumblings of classification that take the two groups into one in spite of the difference in their importance.

Mr. Benson: I have not run into this at this point, and I think it is probably the fear of what might happen. People may be in the same group for collective bargaining, but that does not mean necessarily that they have the same classification because in each group you have all sorts of classifications but what you try to do is to get down to about 70 groups so that it will be possible to deal with them over a period of two years, which your normal agreement would run. I hope that their fears are unfounded.

Mr. More (Regina City): The assessors groups have not been classified.

Mr. Benson: They have not been reclassified to my knowledge.

The Chairman: Have you finished, Mr. More? Mr. Macdonald.

Mr. Macdonald (Rosedale): I wanted to ask some questions not only about the Tax Appeal Board, but also about the cases that do not go to the Tax Appeal Board. I do not know whether I should...

The Chairman: Well, they are two separate...

Mr. Macdonald (Rosedale): The first part now? Obviously the cases that do not go to the Tax Appeal Board are not on the Tax Appeal Board estimates. I do not want to be foreclosed on that question.

The Chairman: No. I think I would consider that they are related to the general questions of appeal and that we could deal with them more conveniently under the Tax Appeal Board. I wonder if I might raise one or two matters briefly with the Minister and his officials. I notice that in the charts you filed here the other day, you have an Assistant Deputy Minister of Planning and Research and various subgroups under him, Policy and Legislation, Program Planning and Evaluation, Operations Research and Statistics and Systems Research, and I am pleased to see all this. My question is: what contacts do the people in this section have with scholars who work in the field of taxation policy and research and so on?

Mr. Benson: I think I would ask Mr. Sheppard to answer this.

Mr. Sheppard: Mr. Chairman, this group is in the process of being developed and it will be composed of people from our own staff who have had practical experience in this line, and we also expect that we will have to supplement it with some well-trained people and people from the outside. The Operations Research and Statistics is one section where we may have to do that. And in the Policy and Legislation, we may have to supplement it with others in that field.

The Chairman: This is not in full operation yet?

Mr. Sheppard: Not yet, no.

The Chairman: Just to digress a moment, does this apply to any of the other headings in this chart? The chart gives the impression

that they are all in operation. Perhaps we should know whether some of them are still in the evolutionary stage.

Mr. Sheppard: In the Minister's statement, to begin with, he explained that this was a program which had been started only this year, and which is not fully developed yet. The Operations section is one that is also not quite as far developed as the Compliance Branch. Now the Compliance Branch mainly brings together a number of the things which were formerly in the Assessment Branch and the Administration Branch, so it is further ahead in this development than the other two.

The Chairman: With respect to the Planning and Research end—and I think personally that it is very constructive to see this highlighted—is it contemplated that there will be regular consultation with people in universities who are doing studies and research in these areas, or will you be hiring people on contract or opening positions for people with senior degrees in these fields and the main fields of economics?

Mr. Sheppard: Mr. Chairman, we will be doing both. We will be hiring people and we will also be engaging consultants when necessary.

The Chairman: I was impressed with the brief looks I have had over the recent years at the relationship between universities and business, and the labour movement, for that matter, with Government in the United States, and I was wondering to what extent appropriate contacts are going to be made involving this section in the Department? This relates particularly to university people.

Mr. Sheppard: Yes. Well, we will certainly have a look at that, Mr. Chairman.

The Chairman: The next point is that when we were looking at the Dominion Bureau of Statistics it was intimated that the Minister would make some brief comments to provide reassurance in the matter of secrecy of returns. Perhaps it might be useful to do so at this point.

Mr. Benson: I answered a question on this in the House, as a matter of fact. The secrecy provisions are maintained. We have to supply information to certain branches of government. We assure ourselves in doing so that their secrecy provisions are as good as or better than ours. We do not supply information to anyone to whom we are not required to supply it by statute, so that people's tax

returns are not floating around, and so on. DBS do get information on personal tax returns. The information we provide is generally block information without the person's name on it. Under the Act they have the right to look at corporate tax returns but their secrecy provisions are equally as stringent as ours.

The Chairman: If the Committee agrees it might be useful to reprint the answer to that question as an appendix.

Mr. Benson: Yes; I am sorry I do not have it with me. The question was answered and is in *Hansard*.

The Chairman: Would this be of interest to the Committee?

Some hon. Members: Agreed.

• (11.45 a.m.)

The Chairman: I have one final point. This may come more conveniently under the Tax Appeal Board heading but I will just raise the point here. To what extent is the correction way favourable to the taxpayer, either through administrative action or otherwise, applied automatically to others in the same situation?

I will give you a concrete example so it will be clear. It came to my attention that the Department at one stage was attempting to tax as income a prize won in a contest run by a certain employee's company, but after looking into the matter further they relented and said that this really was not income connected with employment in spite of the source of the prize. Then it turned out that a number of other people working for the same company had won prizes in the same contest. Now, would these people get the benefit of this reconsideration automatically?

Mr. Benson: It is very difficult to determine how many people are involved, but certainly if we have made a decision and there are other cases which have been questioned for the same reason we apply a favourable decision automatically there as well. But you might find, for example, that some of the other people had not reported it as income and it had never been questioned. It is very difficult to find them all. In every case where we make a change we cannot go to the employer and dig out all the information, but certainly if we were in the process of assessing them for the prize, we would cancel it if it were similar. And most people would not have reported it in the particular circumstances you have mentioned.

The Chairman: In this particular case—and this probably happens more and more frequently because more people work for firms—you must have asked the employer for some type of information return or directed him to issue additional T4 slips covering the prize.

Mr. Benson: Some of the prizes that people get from firms are taxable because they are sales incentives, really. Others are not taxable, such as the particular case that you mentioned.

The Chairman: In this particular case T4 slips were issued at the direction of the company and later on, after looking into it—I will not identify here the source of your having to look into it; it may be obvious—you did decide that this really was not linked with income from employment under the terms of the law.

Mr. Benson: Well, certainly if we were assessing anybody else in the same regard and if we knew of it we would certainly adjust it.

The Chairman: Are there any further questions or comments? Mr. Irvine?

Mr. Irvine: Item 5 might not be the right place but I would like to ask the Minister a question or two. We discussed this in the House once after I was speaking and it concerns information that I had received about the federal superannuates. I believe it is obligatory that the Minister—I believe it is the Minister of National Revenue—report to the House once a year on the amount and disposition of this fund. Am I correct?

Mr. Benson: That is the responsibility of the Minister of Finance.

Mr. Irvine: It is the responsibility of the Minister of Finance? But does this not come under your domain in some way?

Mr. Benson: The only connection I have with it is not as the Minister of National Revenue but as President of the Treasury Board.

Mr. Irvine: Yes. Now, I understand—and I may be wrong because I received this information from another source about which I told you—that there is a surplus in their fund now of something close to \$2 billion. Is this correct?

Mr. Benson: There is about that amount in the fund; it is not a surplus.

Mr. Irvine: It is in the fund but it is not a surplus?

Mr. Benson: No. It is actuarially required to meet the pension obligations of the fund.

Mr. Irvine: And is this transferred to the national Consolidated Revenue Fund?

Mr. Benson: No.

Mr. Irvine: It is not.

Mr. Benson: No. Now when you are talking of the Consolidated Revenue Fund, you are talking about bank accounts. It is in the government's bank account or it is in its cash availability, but it is not taken into revenue. It is treated as a separate fund and the government pays interest on it, but the government has the use of the money for the payment of its interest. It does not go into revenue as such.

The difference here is that the Consolidated Revenue Fund has all the cash in it. Some of it comes through revenue and some comes from other sources, borrowing and so on, and that is a little confusing I think to some people, but we certainly do not take the money into revenue.

Mr. Irvine: A statement was made in the House some time ago—I believe it was your Department—that a review of these pensions was going to be made.

Mr. Benson: It is being done right now.

Mr. Irvine: It is being done right now?

Mr. Benson: I was working on it this morning.

Mr. Irvine: It will be reported, I presume, to the House.

Mr. Benson: In due course, I would hope.

Mr. Irvine: Thank you very much.

Mr. Cameron (Nanaimo-Cowichan-The Islands): May I ask Mr. Benson a question on that?

The Chairman: Yes.

Mr. Cameron (Nanaimo-Cowichan-The Islands): You spoke of the government paying interest on these funds. What rate do you pay and does it vary?

Mr. Benson: No; it is a fixed rate. I think it is three per cent or four per cent. I do not have the figures, but it is a fixed rate. We took a look at using a varying rate and we

found that if you went back over the last thirty years a varying rate would have been about the same as a fixed rate. I just do not have the interest rate in my mind at the present time.

Mr. Irvine: Perhaps I could ask a supplementary on that, Mr. Chairman. If there is now \$2 billion amount in the fund, what was the annual pay-out for this year and last year? Have you any idea?

Mr. Benson: I can not tell you at this point. I can certainly get the information for you and I should be pleased to do so.

Mr. Irvine: I would appreciate it. The information I get is that more money in interest is accruing than is being paid out. I have no answer for it.

Mr. Benson: I can get the information for you, but I should make quite clear is that this is an actuarial fund. When I first became part of the government there was a deficit in this fund. We are required to get a report of the amount that must be in the fund from the actuaries of the federal government; we build this and we must make up any difference. There was an actuarial deficiency which we have picked up now. But the fund is an actuarial fund. It is what is required to be in the fund to look after the pension obligations that the government has contracted for.

Mr. Irvine: I think you know the information that I wish and I would like to have it.

Mr. Benson: Yes. I will get that.

The Chairman: I think I should interrupt because while there is no reason why we should not have a certain latitude actually neither this fund nor the Minister's responsibility as President of the Treasury Board are strictly speaking before us at this time. Perhaps we should not try to go into this very important question in too much detail at the moment. Shall Item No. 5 carry?

Item No. 5 agreed to.

The Chairman: I now call Item No. 10.

Tax Appeal Board Administration Expenses \$193,400.

Mr. Macdonald (Rosedale): Mr. Minister, I wonder whether I could get some figures on the operations of the board? I could just put the questions if you do not have the figures.

Mr. Benson: I have a monthly report on it.

Mr. Macdonald (Rosedale): I would like the figures for a recent period, say for the last fiscal year available, on the number of appeals to the Board and the party initiating the appeal, either the Crown or the taxpayer.

Mr. Benson: I can get that information for you.

Mr. Macdonald (Rosedale): If I can just put it in a series of questions—

Mr. Benson: I should say that there are no appeals as such by the Crown to the Tax Appeal Board.

Mr. Macdonald (Rosedale): The Crown never proceeds from a dispute with the taxpayer?

Mr. Benson: The first hearing is at the Income Tax Appeal Board.

Mr. Macdonald (Rosedale): So at the Tax Appeal Board level the appeal is always by the taxpayer. How many Board decisions are appealed to the court by the Crown and the taxpayer respectively? Also, how many of those decisions go from the Exchequer Court to the Supreme Court of Canada, and at whose initiative?

Mr. Benson: I can certainly get that information. I do not have it here, but I will get it for you.

Mr. Macdonald (Rosedale): Can you also tell me how many cases by-pass the Board altogether? In other words, cases that go direct to the Exchequer Court and by-pass the Board.

Mr. Benson: There are a reasonable number of these.

Mr. Macdonald (Rosedale): When you say that there have been no cases appealed by the Crown to the Board does that apply equally to cases started off ab initio in the Exchequer Court? Does the Crown never start a tax case on its own initiative?

Mr. Benson: We do not start tax cases on our own initiative. We have to assess, and that is the document that goes to the court. It is then the taxpayer who appeals to the court. Now, sometimes if we get a decision from the Income Tax Appeal Board which we think is dangerous to the administration of the tax law, we appeal to the Exchequer Court. I will give you the figures on these.

Mr. Macdonald (Rosedale): But you would not start a case off ab initio in the Exchequer Court any more than you would start a case off ab initio before the Appeal Board.

Mr. Benson: No, we assess and the taxpayer goes.

Mr. Macdonald (Rosedale): I am concerned about the inequity of compelling some taxpayers—individuals of limited means, essentially—to go on to further court proceedings in a test case where there is a doubtful question of law. In other words these taxpayers are the guinea pigs for the Crown in the administration of its own tax laws.

Mr. Benson: This is a little bit of a problem. There are not many cases of this kind where we are pleased to get a judicial decision. I think in a few cases in the past—and they are very few; I cannot think of any offhand since I have been Minister—the Crown has picked up the legal fees involved in such cases. One of the other things we have done, of course, is to make legal fees deductible for tax purposes, so now if a person goes to court at least he can claim the deduction of legal fees for tax purposes.

The Chairman: Perhaps I could ask you a question, Mr. Macdonald. Do you know whether or not this type of thing is covered by the Ontario legal aid scheme?

Mr. Macdonald (Rosedale): It strikes me that the Ontario legal aid scheme would not apply almost by definition because the people to whom it applies probably would not have taxable incomes.

Mr. Benson: Mr. Macdonald, I should refer you to Appeal Statistics in the \$21 million a day which gives the 1965 figures. There were 6,838 Notices of Objection filed and 494 formal appeals made to the Tax Appeal Board. So that means the majority of them were cleared up. Eighty-eight were made direct to the Exchequer Court of Canada; 95 appeals from the Board's decision were made to the Exchequer Court and 26 appeals from the Exchequer Court decisions were made to the Supreme Court of Canada. That is in 1965. I will give you up-to-date figures though; I have them.

Mr. Macdonald (Rosedale): Do you have any reason to believe in relation to the tax-paying population as a whole that there has been any greater percentage increase than you would have expected?

Mr. Benson: No. One of the things I mentioned in my opening statement is that the Appeal Board has been carrying on and I get a monthly report. They have not been building up a backlog but there seems to be about

the same number of cases that have not been cleared up all the time and I am suggesting that they will be requesting the government to increase the size of the Appeal Board.

Mr. Macdonald (Rosedale): One of the rationales of having the Board is that a person can have access to it for a very small fee. I think it is \$15, or is it up to \$25 now?

Mr. Benson: It is \$15 which is refundable if you win.

Mr. Macdonald (Rosedale): But that does not take into account that in a very technical area of the law anybody who is going to take the proceedings will require counsel, and I was wondering whether any consideration had been given for the benefit of individuals of limited means to having something like the veterans' advocate service which is available to the Canadian Pension Commission. A high counsel fee can be as effective a deterrent as other high legal fees under any circumstances.

Mr. Benson: I should point out something that no doubt you are familiar with; the Tax Appeal Board operates very informally. You do not have to have a counsel to go to the Tax Appeal Board, but people who have very technical problems invariably do take counsel.

Mr. Macdonald (Rosedale): I think you would acknowledge that the Tax Appeal Board increasingly has come to resemble a court with more frequent use of counsel and it seems that the problem of a counsel fee can become a deterrent to a taxpayer of limited means seeking redress in the courts.

The Chairman: Is not the government always represented by counsel at the Tax Appeal Board?

Mr. Benson: We are.

• (12.00 noon)

The Chairman: Well, you must find it useful.

Mr. Macdonald (Rosedale): Just to go back to the question of the inequity of compelling a taxpayer to proceed to the courts merely for the purpose of establishing a principle for departmental use, to what extent does the taxpayer's means enter into the Department's consideration of whether to compel the appeal or not?

Mr. Benson: We try not to go through the courts in any more cases than we have to, to determine the law. We try to use the best

legal advice we have to determine the law and I think the fact that out of 6,800 Notices of Objection only 494 got to the Income Tax Appeal Board indicates that most of these problems are straightened out between the individual and the taxpayer. I am certainly interested in your suggestion that perhaps we should provide fees in cases where the taxpayer cannot afford to appeal. I think I am right that we have done so in the past in a few cases of the type you are talking about.

Mr. Macdonald (Rosedale): Of those 494 cases, how many would involve individuals and how many corporations? Do you have any idea?

Mr. Benson: I have no idea. I can get the information but I do not have it here.

Most of them would be individuals, appearing at the Tax Appeal Board. Many of the corporations go to Exchequer Court directly.

Mr. Flemming: Can the Minister tell us how much time elapses between the filing and the hearing and disposition of an appeal?

Mr. Benson: The time within which the Minister must reply to a Notice of Objection is laid down by statute, of course.

Mr. Flemming: Yes.

Mr. Benson: What happens is that somebody files a Notice of Objection, and the District Office, which has notice of this immediately, will talk to the taxpayer if he has not already talked to them, about the matter on which he has filed the Notice of Objection. The weather may be cleared up at that level. If not, the file is sent to the Head Office where it is reviewed, and the decision made at the District Office may be reversed in favour of the taxpayer and withdrawn, or some common ground reached with the taxpayer.

The taxpayer has every right to deal with officials at the Head Office when his file has been moved for purpose of review.

Mr. Flemming: How long is the time lapse, generally speaking? Is it four or five months?

Mr. Benson: We try to deal with them within three months.

Mr. Flemming: That was really the information I wanted.

Mr. Benson: Sometimes they are difficult cases.

Mr. Flemming: I appreciate that.

Mr. Benson: There are some outstanding now. There is one before the Income Tax Appeal Board that has been outstanding for several years. In big, complicated cases it sometimes takes time to get the evidence that you require to go to court.

Mr. Flemming: I am really enquiring about the procedure. Thank you, Mr. Chairman.

The Chairman: You are going to provide some statistics for Mr. Macdonald. If it is convenient to do it, perhaps we could have these figures published as an appendix to today's proceedings. Is that satisfactory to you, Mr. Macdonald?

Are there any further questions or comments on the Tax Appeal Board?

I might just ask one brief question. In the case of a decision by the Tax Appeal Board or the Exchequer Court favourable to the taxpayer in a particular case what is the policy with respect to applying its provisions automatically throughout the Department? Is there any tendency to have a situation in which, despite a decision in a case ostensibly covering the same facts, you would take a position whereby the taxpayer has again to take his case to the top?

Mr. Benson: No. When we get decisions in the Exchequer Court we do not usually go back over other files voluntarily. However, on occasion, if it is an important decision or affects a considerable amount of money, we will if we know of cases where individuals have perhaps filed similar Notices of Objection.

Of course, all our officers become acquainted with the decisions of the Tax Appeal Board and the Exchequer Court and use them for guidance. In the instruction manual for our assessors we also reproduce information from these decisions.

The Chairman: And this applies to decisions of the Tax Appeal Board and the Exchequer Court?

Mr. Benson: Yes. Of course, I should make it clear that there may be Tax Appeal Board decisions which we decide to appeal.

Mr. Macdonald (Rosedale): How long do you have to make that decision?

Mr. Benson: We do not wait very long. I think we have 90 days under the law to appeal it.

Mr. Macdonald (Rosedale): Assuming that a taxpayer has succeeded either before the

Board, or, ultimately, before the Court, does the Department then use the argument with the other taxpayers that the money they previously paid was paid through an error of law and therefore is not refundable to them, even though the taxpayer and the Government made the same mistake?

Mr. Benson: It works both ways. I think one would have to look at specific situations, Mr. Macdonald, I do not think there is a general rule that as a result of Tax Appeal Board decision we will search our files to find similar cases.

Mr. Macdonald (Rosedale): What happens if another taxpayer says that he was assessed last year on a ground that the Supreme Court now says was wrong in law, and asks for a refund of the overpayment?

Mr. Benson: I may not be correct in this, but I think that decisions in Court do not always work retroactively. The decision of the Court is made and from that point you change your method of handling the particular problem.

Mr. Macdonald (Rosedale): Surely the decision of the Court is only to declare the law as it has always been, not to apply it retroactively.

The Chairman: Some people think that that is an outmoded theory and that courts are policy-making bodies. It is an interesting argument but one we should not get into here.

Mr. Macdonald (Rosedale): I have one final question. Do you refund to the taxpayer his legal costs in the same way as in a civil court where he would get some portion of his legal costs, including his counsel fees?

Mr. Benson: In the Exchequer Court costs are awarded.

Mr. Macdonald (Rosedale): What is the situation on costs before the Tax Appeal Board, apart from the \$15? Do you give him any part of his counsel fees?

Mr. Benson: No costs are awarded before the Tax Appeal Board.

Mr. Sheppard: Mr. Chairman, may I modify one thing? The taxpayer must, within 120 days, appeal any decision of the Tax Appeal Board to the Exchequer Court.

Mr. Benson: I said 90 days.

Mr. Sheppard: Well, I gave you the 90 days. I am sorry.

The Chairman: Are there any further questions or comments on the Tax Appeal Board? If not, I shall ask if item 10 carries?

Some hon. Members: Agreed.

Item 10 agreed to.

The Chairman: Item 1 was stood for any final questions or comment. If there are no further questions I shall ask if item 1 finally carries?

Some hon. Members: Agreed.

Item 1 agreed to.

The Chairman: Is it agreed that I report to the House the Estimates of the Department of National Revenue?

Some hon. Members: Agreed.

The Chairman: I wish to thank the Minister and his officials for what, I think you will agree, has been a most useful exchange on the operations of this key department.

APPENDIX C

HOUSE OF COMMONS

Question No. *52

Wednesday, May 24, 1967.

INQUIRY OF THE MINISTRY

Mr. McCleave: To which departments or agencies of government does the Department of National Revenue make available information from income tax returns?

FOR TAXATION DIVISION

The honourable E. J. Benson (Minister of National Revenue): Listed hereunder are the Government departments or agencies authorized to obtain information from the income tax returns. In each case, the authority granted the department or agency contains, implicitly or otherwise, the obligation to preserve the secret nature of the information derived from the returns. A general authority for communicating information to these authorized persons is provided in Section 133(4) of the Income Tax Act.

(1) *Foreign Governments*

There are fourteen foreign governments with which Canada has reciprocal agreements. The general reason stated in the various tax agreements is that Canada, upon request, should exchange information as is necessary for carrying out the provisions of the agreement or for the prevention of fraud or for the administration of statutory provisions against legal avoidance in relation to the taxes which are the subject of the agreements.

Canada also has a specific reciprocal agreement with the United States of America under Article XX to furnish the names and addresses of persons resident in the United States deriving income from sources in Canada.

(2) *Department of Health & Welfare*

For administering the Monthly Guaranteed Income Supplement, especially in verifying income from a particular source of an applicant or beneficiary or the spouse of such applicant or beneficiary, and for administering the Canada Pension Plan.

Authority: (i) Old Age Security Act, Part III, Section 17, Subsection 3 (ii) Canada Pension Plan, Sections 93 & 94.

(3) *Department of Industry*

To provide information requisite for determining Scientific Research and Development Grants, e.g.

(a) What corporations are associated.

(b) Whether any particular expenditure of a corporation is capital or current.

(c) The duration of any fiscal period of the corporation.

(d) Whether a corporation is exempt from tax under Section 62 of Part I of the Income Tax Act.

Authority: Industrial Research and Development Incentives Act, Section 11.

(4) *Provincial Governments of Canada*

Exchange of information on a reciprocal basis for the administration of the various provincial taxes; for purposes directly related to the imposition and collection of income taxes.

Authority: (i) Income Tax Act, Section 133(4)(b) (ii) Income Tax Regulations, Section 3000 (iii) Federal-Provincial Tax Collection Agreements.

(5) *Department of Finance through the Treasury Board and the Auditor General*

To obtain information necessary for the performance of the Treasury Board's duties.

Authority: Financial Administration Act, Section (6).

(6) *Department of Justice*

For court cases under Criminal law and Appeals to the Tax Appeal Board and the Exchequer Court.

Authority: (i) Income Tax Act, Section 100 (ii) The authority of the Courts to demand production of documents (Supreme Court Act).

(7) *Commissioners under the Inquiries Act*
—Royal Commissions

For any public or departmental inquiries
commissioned under the Inquiries Act.

Authority: Inquiries Act, Section 7.

For preparing statistical records and re-
ports.

Authority: (i) Corporations and Labour
Unions Returns Act, Section 14A (ii) Statistics
Act, Section 10.

(8) *The Dominion Statistician of Dominion*
Bureau of Statistics

Department of National Revenue,
May 18, 1967.

APPENDIX "D"

TAX APPEAL BOARD

APPEAL STATISTICS

YEAR ENDED MARCH 31, 1967

<i>Notices of Objection</i>		6597
<i>Appeals to Tax Appeal Board</i>		492
<i>Appeals to Exchequer Court:</i>		
Direct		158
From decisions of Appeal Board:		
By the department	14	
By the taxpayer	50	64
		<hr/>
<i>Appeals to Supreme Court:</i>		
From decisions of Exchequer Court:		
By the department	17	
By the taxpayer	20	37
		<hr/>
<i>As at March 31, 1967</i>		
Appeals before Tax Appeal Board		504
Appeals before Exchequer Court		361
Appeals before Supreme Court		34
<i>Decisions made by Tax Appeal Board</i>		
<i>were as follows:</i>		
Appeals Dismissed	126	
Allowed in full	35	
Allowed in part	30	191
		<hr/>
Consent Judgments		229
		<hr/>
Appeals Disposed of		420
		<hr/>

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

STANDING COMMITTEE
ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

TUESDAY, JUNE 27, 1967

WEDNESDAY, JUNE 28, 1967

Respecting

Bill C-114, An Act to incorporate United Investment
Life Assurance Company.

Including

FOURTH REPORT TO THE HOUSE AND APPENDIX E

WITNESSES:

Messrs. George Perley-Robertson, Q.C., Parliamentary Agent; R. Humphrys, Superintendent of Insurance; John M. Godfrey, Q.C., President, United Accumulative Fund Ltd.; William R. Miller, Treasurer, United Accumulative Fund Ltd.

UNIVERSITY OF TORONTO
ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Gilbert,	Mackasey,
Beaulieu,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Johnston,	Monteith,
<i>Cowichan-The Islands</i>),	Laflamme,	More (<i>Regina City</i>),
Cantin,	Lambert,	Noël,
Comtois,	Latulippe,	Tremblay (<i>Matapédia-</i>
Flemming,	Lind,	<i>Matane</i>),
Fulton,	Macdonald (<i>Rosedale</i>),	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

TUESDAY, June 6, 1967.

Ordered,—That Bill C-114, An Act to incorporate United Investment Life Assurance Company, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

WEDNESDAY, June 27, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

FOURTH REPORT

Your Committee has considered Bill C-114, An Act to incorporate United Investment Life Assurance Company and has agreed to report it with the following amendment:

Clause 8

Renumber present clause 8 as clause 9 and insert the following new clause 8:

8. (1) In this section

- (a) "non-resident" has the same meaning as in paragraph (c) of subsection (1) of section 16B of the *Canadian and British Insurance Companies Act*, and
- (b) "registration date" means the date of the Company's first certificate of registry obtained under the provisions of the said Act.

(2) Where more than fifty per cent of the issued and outstanding shares of the capital stock of the Company are held in the name or right of or for the use or benefit of one non-resident that is a corporation on the day of commencement of the first general meeting of the shareholders of the Company and so long as sections 16C to 16E of the said Act do not apply, then

- (a) during the period commencing two years after the registration date
 - (i) whenever more than seventy-five per cent of the issued and outstanding shares of the capital stock of the Company are held in the name or right of or for the use or benefit of non-residents, or
 - (ii) whenever more than fifty per cent of the issued and outstanding shares of the capital stock of the Company are held in the name or right of or for the use or benefit of such one non-resident corporation and more than seventy-five per cent of the issued and outstanding shares of the capital stock of such one non-resident corporation are held in the name or right of or for the use or benefit of one non-resident, or
- (b) during the period commencing ten years after the registration date, whenever more than sixty-six per cent of the issued and outstanding shares of the capital stock of the Company are held in the name or right of or for the use or benefit of non-residents,

no person shall, either as proxy or in person, exercise the voting rights pertaining to the shares of the Company held by a non-resident if more than fifty per cent of the issued and outstanding shares of the capital stock of the Company are held in his name or right or for his use or benefit.

(3) If any provision of this section is contravened at a general meeting of the Company, no proceeding, matter or thing at that meeting is void by reason only of such contravention, but any such proceeding, matter or thing is, at any time within one year from the day of commencement of the general meeting at which the contravention occurred, voidable at the option of the Company by a resolution passed at a special general meeting of the Company.

A copy of the Minutes of Proceedings and Evidence relating to this Bill (*Issue No. 8*) is tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, June 27, 1967.

(7)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Cantin, Clermont, Comtois, Flemming, Gilbert, Gray, Irvine, Lambert, MacDonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Noël, Tremblay (*Matapédia-Matane*), Wahn—(16).

In attendance: Messrs. R. Humphrys, Superintendent of Insurance; George Perley-Robertson, Q.C., Parliamentary Agent; John M. Godfrey, Q.C., President, United Accumulative Fund Ltd.; Stanley R. Anderson, Secretary, United Accumulative Fund Ltd.; Gordon E. Eddolls, President, United Investment Services Ltd.; William R. Miller, Treasurer, United Accumulative Fund Ltd.; David Brown, Consulting Actuary, Eckler, Brown and Company Ltd.

The Committee first completed study of the Main Estimates, 1967-68, of the Department of National Revenue. (*See Issue No. 7*).

The Committee then proceeded to consideration of Bill C-114, An Act to incorporate United Investment Life Assurance Company.

The Sponsor of the Bill, Mr. Wahn, made a brief statement and introduced the Parliamentary Agent, Mr. Perley-Robertson, who, in turn, introduced the witnesses.

Mr. Perley-Robertson tabled the following papers, copies of which were distributed to the members:

- (a) Memorandum concerning United Investment Life Assurance Company, and
- (b) Chart entitled *Ownership of Shares in United Investment Life Assurance Company*.

Ordered,—That the papers tabled by the Parliamentary Agent be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix E*).

Messrs. Humphrys, Godfrey and Miller were questioned.

The questioning continuing, on motion of Mr. Cameron (*Nanaimo-Cowichan-The Islands*), seconded by Mr. Comtois, it was

Resolved,—That further consideration of this Bill be postponed to the next meeting.

At 1:25 p.m., the Committee adjourned until Thursday, June 29, 1967, at 11:00 a.m.

Dorothy F. Ballantine,
Clerk of the Committee.

WEDNESDAY, June 28, 1967.

(8)

The Standing Committee on Finance, Trade and Economic Affairs met at 1:40 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Clermont, Gray, Irvine, Lambert, Lind, McLean (*Charlotte*), Noël, Wahn—(9).

In attendance: Messrs. R. Humphrys, Superintendent of Insurance; George Perley-Robertson, Q.C., Parliamentary Agent; John M. Godfrey, Q.C., President, United Accumulative Fund Ltd.; Stanley R. Anderson, Secretary, United Accumulative Fund Ltd.

The Committee resumed consideration of the preamble of Bill C-114, An Act to incorporate United Investment Life Assurance Company.

Messrs. Humphrys and Godfrey were questioned, and the Preamble was carried.

Clauses 1 to 4 inclusive were carried.

On clause 5

Mr. Godfrey was questioned and the clause was carried.

Clauses 6 and 7 were carried.

On clause 8

It was moved by Mr. Wahn and seconded by Mr. Lind that:

Present clause 8 be re-numbered as clause 9 and a new clause 8 be inserted as follows:

8. (1) In this section

- (a) "non-resident" has the same meaning as in paragraph (c) of subsection (1) of section 16B of the Canadian and British Insurance Companies Act, and
- (b) "registration date" means the date of the Company's first certificate of registry obtained under the provisions of the said Act.

(2) Where more than fifty per cent of the issued and outstanding shares of the capital stock of the Company are held in the name or right of or for the use or benefit of one non-resident that is a corporation on the day of commencement of the first general meeting of the shareholders of the Company and so long as sections 16C to 16E of the said Act do not apply, then

- (a) during the period commencing two years after the registration date
 - (i) whenever more than seventy-five per cent of the issued and outstanding shares of the capital stock of the Company are held in the name or right of or for the use or benefit of non-residents, or
 - (ii) whenever more than fifty per cent of the issued and outstanding shares of the capital stock of the Company are held in the name or right of or for the use or benefit of such one non-resident

corporation and more than seventy-five per cent of the issued and outstanding shares of the capital stock of such one non-resident corporation are held in the name or right of or for the use or benefit of one non-resident, or

- (b) during the period commencing ten years after the registration date, whenever more than sixty-six per cent of the issued and outstanding shares of the capital stock of the Company are held in the name or right of or for the use or benefit of non-residents,

no person shall, either as proxy or in person, exercise the voting rights pertaining to the shares of the Company held by a non-resident if more than fifty per cent of the issued and outstanding shares of the capital stock of the Company are held in his name or right or for his use or benefit.

(3) If any provision of this section is contravened at a general meeting of the Company, no proceeding, matter or thing at that meeting is void by reason only of such contravention, but any such proceeding, matter or thing is, at any time within one year from the day of commencement of the general meeting at which the contravention occurred, voidable at the option of the Company by a resolution passed at a special general meeting of the Company.

After further discussion and questioning, the amendment was carried.

Present clause 8 (new clause 9) was carried, as amended by re-numbering.

The title and the bill, as amended, were carried.

Ordered,—That the Chairman report the bill, as amended.

At 2:05 p.m., the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, June 27, 1967.

The Chairman: The next item on our Agenda is to consider Bill C-114, An Act to incorporate United Investment Life Assurance Company, the sponsor of which, Mr. Wahn, is also a Member of our Committee. I would ask the Parliamentary Agent, those with him in support of the Bill, and Mr. Humphrys, the Superintendent of Insurance, to take their seats at the table.

We will wait a moment until everyone is seated. Perhaps someone would assist the Clerk in handing out the memorandum and chart which are going to be referred to by the Parliamentary Agent and which may help us in our consideration of the Bill.

While the material is being distributed perhaps I can call on the sponsor, Mr. Wahn, for any introductory comments he may have.

Mr. Wahn: Mr. Chairman, since this Bill was given second reading in the House there have been discussions between officials of the Company and interested Members with a view to adding to the Bill a provision designed to ensure a degree of Canadian ownership over a period of years.

There has been drafted, and I propose, in due course, to move, an amendment which will introduce a new clause 8 and will renumber existing clause 8 of the Bill as clause 9. This will be explained in greater detail either by the Parliamentary Agent or by the witnesses. It is a pleasure for me now to introduce to the Committee the Parliamentary Agent, Mr. George Perley-Robertson.

The Chairman: Mr. Perley-Robertson, you may be seated and make your initial presentation. I gather it is based on this memorandum which has been distributed.

• (12.10 p.m.)

Mr. George Perley-Robertson (Parliamentary Agent): Yes, Mr. Chairman, I have distributed a list of the representatives of the Company present, and they will be able to answer any questions. They are Mr. Gordon Eddolls, President of United Investment

Services Ltd.; Mr. John Godfrey, Q.C., President of United Accumulative Fund Ltd.; Mr. Stanley Anderson, Secretary of United Accumulative Fund Ltd.; Mr. William Miller, Treasurer of United Accumulative Fund Ltd.; and Mr. David Brown, Consulting Actuary.

There has also been distributed a memorandum identical to the one that was read at second reading in the House. If you wish, this can be commented on by the witnesses. It is the same as was read in *Hansard*.

The Bill to incorporate the Company is in the form required by the Canadian and British Insurance Companies Act.

If there are any questions the witnesses are available to answer them.

The Chairman: Do the Members of the Committee wish to have Mr. Perley-Robertson read this memorandum or shall we have it be incorporated into the record?

Mr. Macdonald (Rosedale): Incorporate it and we can read it ourselves and ask questions on it.

The Chairman: You move, therefore, Mr. Macdonald, seconded by Mr. Flemming, that this memorandum be incorporated into the record. Is that agreed?

Some hon. Members: Agreed.

Motion agreed to.

The Chairman: This, of course, will also include the chart.

Mr. Macdonald (Rosedale): I have a comment about the chart. I think there is a misprint on it. The third column on the left-hand side and the first column on the right-hand side it should be "Indirect Ownership" rather than "Direct Ownership." Is the Waddell and Reed ownership not indirect?

Mr. Humphrys: Yes. The first column should read "Indirect Ownership" instead of "Direct and Indirect".

Mr. Stanley R. Anderson (Secretary, United Accumulative Fund Ltd): The first column on

the right-hand side is entitled "Direct Ownership" because it is direct ownership of United Funds Management Ltd. The second column on the right-hand side is entitled "Direct Ownership" and deals with the direct ownership of United Investment Life Assurance Company after incorporation.

Mr. Macdonald (Rosedale): Of which there will be zero.

Mr. Anderson: At the opening it will be zero, but you will notice that at the left-hand side we indicate the time elements. At inception of the direct ownership of others besides United Funds Management Ltd. in the insurance company would be zero; in two years' time it would be 25 per cent; and ten years after commencement of business, 34 per cent.

Mr. Macdonald (Rosedale): So that at all times the ownership will be indirect...

Mr. Anderson: Of Waddell and Reed?

Mr. Macdonald (Rosedale): Of Waddell and Reed.

Mr. Anderson: That is right.

Mr. Macdonald (Rosedale): Therefore, the column third from the left should be entitled "Indirect Ownership" and not "Direct Ownership", should it not?

Mr. Anderson: That is direct ownership of United Funds Management Ltd. which is correct in that it is indicating the ownership of Waddell and Reed in United Funds Management Ltd.

Mr. Macdonald (Rosedale): I understand.

Mr. John Godfrey (President, United Accumulative Fund Ltd.): You are quite right. The first column on the left is wrong. Instead of reading "Direct and Indirect" it should be "Indirect" only.

The Chairman: Am I right in saying that this chart reflects the position that the amendment of which Mr. Wahn has given us notice will be accepted by this Committee and the House?

Mr. Godfrey: In effect, it reflects the undertakings we have given, and to ensure—

The Chairman: Undertakings to whom?

Mr. Godfrey: We gave undertakings to various individual Members of Parliament. They are included in this memorandum.

The Chairman: That is not quite the same as taking some formal steps either with respect to this Committee or Parliament. This situation will come into effect only if certain amendments are made.

Mr. Godfrey: They are going to come into effect anyway, but to ensure that they do we are proposing certain amendments to the bill, and if we do not carry out these undertakings the effect will be that the foreign ownership will lose all voting rights.

Mr. Wahn: Mr. Chairman, the witness can correct me if I am wrong, but as I understand it the chart indicates the intent of the company and this intent will be guaranteed by the amendment to which I have referred.

The Chairman: Before I call on Mr. Humphrys for his report to us on the proposals contemplated by the bill, perhaps we should distribute copies of the proposed amendment so that we can study it while we approach clause 8.

Mr. Macdonald (Rosedale): Mr. Chairman, while that is being done, perhaps I might ask Mr. Perley-Robertson a question relating to page 2 of the memorandum, which states:

Waddell & Reed, Inc. Will... make a public offering to Canadian residents...

Am I to understand that the stock will be listed for the purpose of the public offering, or will it be an over-the-counter transaction?

Mr. Perley-Robertson: I am sorry, I did not hear you. Did you refer to page 2?

Mr. Macdonald (Rosedale): Yes, to page 2 of the memorandum, where reference is made to the public offering. What are the foreseen modalities of making this public offering?

Mr. Godfrey: When the public offering of United Funds Management Ltd. is made in two years, the stock will be listed so that it will obtain a degree of Canadian ownership under the Income Tax Act.

The Chairman: Mr. Humphrys, I think we should now call upon you for your report on the views of your Department on the proposals in this bill. Do you wish to comment?

Mr. R. Humphrys (Superintendent of Insurance, Department of Insurance): Mr. Chairman and Members of the Committee, this Bill will incorporate a new life insurance company. As described in this memorandum

which has just been distributed, the company will be controlled by United Funds Management Ltd. The other, and principal, activity of United Funds Management Ltd. is the management of a large mutual investment fund known as the United Accumulative Fund Ltd. This fund has assets of over \$300 million.

The formation of a life insurance company to be operated in conjunction with a mutual fund is a little unusual. The real purpose is to make life insurance available in conjunction with the sale of mutual fund shares. As I understand it, the management feels that in their distribution of mutual fund shares they should have concern for the financial management and organization of their customers' affairs and they want to be able to offer them a rounded investment and savings program for their personal finances. They feel that life insurance is an important element of such a program, and the operation of a life insurance company, in conjunction with the mutual fund, will enable them to offer life insurance policies.

The intention at the outset, as I understand it, is to offer, principally, term insurance policies which will enable the holders and investors in mutual fund shares to obtain life insurance protection for the purpose of completing term contracts, or regular payment contracts, as well as for family protection as a supplement to, and in conjunction with, their other investing and savings programs.

It is my understanding, however, that this life insurance company does not intend to confine its activities to holders of shares in the mutual fund, nor to term insurance, although this will be the principal initial operation.

Normally, we would not be in favour of a company being formed to do, principally, term insurance. This has been tried in years gone by and it has failed every time for the reason that the income and profit margins from term insurance are quite small, and companies trying it in the past have suffered from selection against them to the point that they were not successful.

We feel, however, that this case is different as it has a strong administrative vehicle in the existing mutual fund to support it and because it also has a ready-made market, in a sense, in the present shareholders in the mutual fund. Therefore, we feel that it has a good chance of successful operation by reason of the special circumstances.

We were influenced, too, by the fact that the parent company, Waddell & Reed, Inc., in the United States, also manages a mutual fund and has a life insurance company operating on this same pattern, and it has been shown to be reasonably successful so far.

Those are my only general comments, Mr. Chairman. The Bill itself, as presented, is in the standard form contemplated by the model bill in the Canadian and British Insurance Companies Act. The proposers of this company, in early discussions with the Department, indicated their intention of selling shares of the life insurance company to Canadians in order to have Canadian participation in the ownership. We, in the Department, of course, have no objection to the sale of shares to Canadians and to the introduction, to a degree, of Canadian ownership in the company.

The Chairman: If you have no objection then I presume you support the concept?

Mr. Humphrys: Yes, we would support it. We would be happy to see Canadian ownership, of course. I could not support, say, a provision in the law requiring this company to market certain proportions of its shares to Canadians and imposing penalties if that were not done. I could not frame any arguments that would justify penalties applying to this company in terms that would not apply to other companies pursuant to the general legislation. The department generally prefers these bills to be in the model bill form with all the general rules in the general legislation, as has been the pattern in the past.

We have no objection to the form in which the actual terms of the amendment are drafted. We do not think that it will cause any special problems either for the Department or the company. It will carry out the announced intention of the company to accomplish a degree of Canadian ownership.

I should also mention, however, that this plan, as described in the Bill, would bring the degree of Canadian ownership, direct and indirect, to over 50 per cent. The control, however, would still remain in the hands of non-residents through the control of United Funds Management Ltd., which would be the immediate principal shareholder, and through the controlling interest in the United Funds Management Ltd. which is a U.S. corporation.

It happens that in this case, because of the ownership of the life insurance company by a Canadian company which, in turn, is owned by non-residents, it is possible, by distributing

the shares of both the life insurance company and the Canadian holding company, to reduce the foreign ownership below 50 per cent while still retaining control. Therefore, this particular pattern may not serve as a useful or available precedent in other cases where there is not a holding company interposed between the non-residents and the Canadian company.

I think, Mr. Chairman, those are all the pertinent remarks I have to make at this time.

The Chairman: May I ask you two formal questions? First, I gathered from your comments that the proponents of this legislation have met all the usual requirements of your department, such as the administrative ones, and so on?

Mr. Humphrys: Yes, Mr. Chairman.

The Chairman: I would also presume that in your investigations you found nothing adverse with respect to the character, or past records, of those who wish to incorporate this company?

Mr. Humphrys: Yes, Mr. Chairman, that is right.

The Chairman: Thank you. I will now open the meeting to questions in the usual way. I will first recognize Dr. McLean, followed by Mr. More, Mr. Macdonald and Mr. Cameron.

Mr. McLean (Charlotte): Mr. Chairman, is Waddell & Reed, Inc. an American company fully owned in the United States?

Mr. Godfrey: It is substantially owned in the United States, but it is certainly an American company.

Mr. McLean (Charlotte): Do they, in turn, own the controlling interest in United Funds Management Ltd?

Mr. Godfrey: At the present time they own 80 per cent of the shares of United Funds Management Inc.

Mr. McLean (Charlotte): Apparently United Funds Management Inc. control the United Accumulative Fund Ltd. as well as the Canadian mutual fund?

Mr. Godfrey: No; United Funds Management Inc. merely advises on the purchases and sales of the portfolio of United Accumulative Fund Ltd. The United Accumulative Fund Ltd., of which I am the

President, has 99 per cent Canadian shareholders, and 13 of the 15 directors are Canadians.

Mr. McLean (Charlotte): Do you know how much United Accumulative Funds Ltd. and the Canadian mutual fund pay to the United Funds Management Ltd. for advice and so forth?

Mr. Godfrey: They pay one-half of 1 per cent of the portfolio per year.

Mr. McLean (Charlotte): What does that amount to annually?

Mr. Godfrey: In this case, if you take their assets at \$300 million—they are in excess of that now—it would amount to \$1.5 million a year.

Mr. McLean (Charlotte): They are paying \$1.5 million a year?

Mr. Godfrey: That is right.

Mr. McLean (Charlotte): How much do United Funds Management Ltd. pay to Waddell & Reed, Inc?

Mr. Godfrey: United Funds Management Ltd. has been in existence since 1954 and has never paid 5 cents to Waddell & Reed, Inc.

Mr. McLean (Charlotte): Does Waddell & Reed, Inc. come into the picture, then, by their investment in United Funds Management Ltd?

Mr. Godfrey: It hopes eventually to get something out of it, but United Funds Management Ltd. has never declared a dividend. It has had to put money back in the firm to support the sales company. It lost money for a great many years and only recently has it been in a position where it could pay dividends. However, it is now going to use the money it has made to start this life insurance company.

Mr. McLean (Charlotte): What accumulated surplus in United Funds Management Ltd. would belong to Waddell & Reed, Inc.?

Mr. Godfrey: Their present holding are 80 per cent. . . The Treasurer is here today and he will be able to give you more details on that.

Mr. W. R. Miller (treasurer, United Accumulative Fund Ltd.): The accumulated capital and surplus of United Funds Management Ltd. as of the last audit date, August 1966, was just over \$2 million.

Mr. McLean (Charlotte): How much of that would belong to Waddell & Reed, Inc.?

Mr. Miller: As owner of 80 per cent of the capital, they would, in effect, have an interest in 80 per cent.

Mr. McLean (Charlotte): Eighty per cent of the \$2 million?

Mr. Miller: That is correct.

Mr. McLean (Charlotte): So that they really have not been much out of pocket. How long have they been in business?

Mr. Miller: Since 1954.

Mr. McLean (Charlotte): That is not too bad.

This looks as if you want to have your cake and eat it. Is the insurance company going to pay management fees to United Funds Management Ltd?

Mr. Godfrey: No, it is not contemplated that there will be any management fees. They will be using some of the equipment, such as the computer, and some of the staff, for which they will pay their just proportion; but there will be no management fees.

Mr. McLean (Charlotte): Are they going to be managed for nothing?

Mr. Godfrey: Well, there is an auditor on staff, and we have made arrangements for an underwriter, and so on.

Mr. McLean (Charlotte): You are not going to draw any staff from United Funds Management Limited?

Mr. Godfrey: Yes; some of those from United Funds Management will be available for investment advice, sales, and so on, and the insurance company will pay a proportion of their salaries.

Mr. McLean (Charlotte): Well, then, the insurance company is going to pay into United Funds Management?

Mr. Godfrey: Yes; a proportion of expenses; but no sort of management fee out of which they can make a profit, or anything like that. It is not contemplated that there will be any profit made by United Funds...

Mr. McLean (Charlotte): Surely they are not going to run their insurance company for nothing?

Mr. Godfrey: No, no; we will split, in proper proportions, the expenses of running the insurance company, between United Funds...

Mr. McLean (Charlotte): Well, who is going to split the profits?

Mr. Godfrey: The shareholders of the insurance company.

Mr. McLean (Charlotte): Is United Funds going to have the biggest portion of the stock?

Mr. Godfrey: They will start off by having, in effect, 100 per cent; within two years they will have 75 per cent only; and of course because of that ownership they will have an interest in the profits of the life insurance company.

Mr. McLean (Charlotte): They will start with an interest in the profits of 100 per cent; and up to two years, 75 per cent; and after that, 66 per cent.

Mr. Godfrey: That is right. We do not expect any profits for five years, so that there will not be...

Mr. McLean (Charlotte): There will not be any profits for five years; you are just going to split the expenses.

Mr. Godfrey: That is right. We expect from our projections, that at the end of five years we should start being in a profit position.

Mr. McLean (Charlotte): You will have no profits for five years, and you are just going to split the expenses?

Mr. Godfrey: That is right. We will start to make a profit in the third year to reduce the losses that we made in the first two, but we hope eventually to recapture the losses and start to show a profit.

Mr. McLean (Charlotte): Eventually, United Funds expect to get 66 per cent, and then Waddell & Reed Incorporated would get 80 per cent?

Mr. Godfrey: Waddell & Reed will own only 75 per cent of United Funds Management; so that if you multiply the 66 per cent of United Funds Management by 75 it brings it down to 49.5 per cent. So that Waddell & Reed, at the end of the 10-year period, will have only 49.5 per cent of direct ownership in this life insurance.

Mr. McLean (Charlotte): There has been a good deal of talk in U.S. financial circles about the claim by the SCC, which investigates mutual funds there that a lot of favoritism has been shown to brokers and that they get special deals from brokers, and so on. Do you have any of that in Canada? Do you get any special deals from brokers?

Mr. Godfrey: Well, I can speak for ourselves. We do not.

Mr. McLean (Charlotte): You do not?

Mr. Godfrey: No; because we do not sell through brokers to begin with. We sell only through our...

Mr. McLean (Charlotte): No, no; but do you buy securities?

Mr. Godfrey: Oh, yes, we buy securities...

Mr. McLean (Charlotte): Through brokers?

Mr. Godfrey: ...but we do not reward brokers. As the brokers do not sell the shares of the fund we do not reward them for selling them.

Mr. McLean (Charlotte): I am not talking about that; I am talking about your investments.

Mr. Godfrey: Oh, yes, we buy through brokers; but we are not linked with any brokerage firm.

Mr. McLean (Charlotte): Perhaps you are not; but you buy stock through brokers.

Mr. Godfrey: That is right.

Mr. McLean (Charlotte): Do you get special deals? If I wanted 100 shares and you wanted 100,000 would you get a special deal?

Mr. Godfrey: Practically all of our purchases are through the Toronto Stock Exchange. When the purchase is over \$100,000 worth we get a reduced commission under the Toronto Stock Exchange; but that is all.

Mr. McLean (Charlotte): But deals go through that are not on the Exchange.

Mr. Godfrey: Very rarely, because we deal with listed members; and under their rules, even if it is a private deal it still, in effect, has to go through the Exchange, and we have to pay the commission.

Mr. McLean (Charlotte): You do not have a special broker; you deal with all of them?

Mr. Godfrey: That is right. Well, not all of them. We deal with what we think are the best ones, those that give us good advice.

Mr. McLean (Charlotte): How many brokers would you be dealing with?

Mr. Godfrey: I would estimate—and I see these sheets once a month, on the allocation—probably about 40 Canadian brokers.

Mr. McLean (Charlotte): Forty.

Mr. Godfrey: And perhaps the same number of American brokers when we buy American stock. We would reward brokers for services to the extent that they produce a good analysis of some particular stock, even if we do not buy it. We want to encourage this, and to do so we give them some business.

Mr. McLean (Charlotte): You think that their analysts are pretty good, do you?

Mr. Godfrey: Well, we are very proud of our record. That is why we are so big. And because our record is so big it is easy to sell the funds. Had it not been so we would not have been able to sell them.

Mr. McLean (Charlotte): Well, it is easy to be big when you are big, you know.

Mr. Godfrey: I think the size of the fund speaks for itself, in a way. It is because our analysts have been good and we have had such an outstanding investment record that we are the size we are now. We also have a very good sales force. I do not want to give all the credit to the analysts. Mr. Eddolls heads the sales company.

Mr. McLean (Charlotte): Thank you, Mr. Chairman.

The Chairman: I will now recognize Mr. More, followed by Mr. Macdonald and Mr. Cameron.

Mr. More (Regina City): Mr. Chairman, I wish to ask Mr. Humphrys a question. I understand that it is rather common in the United States to have widespread groupings in mutual funds with their own insurance companies and operating over the whole field. If this is true, what has been the general experience of these combined operations in the United States?

Mr. Humphrys: I am familiar only with the one case of Waddell & Reed and the mutual fund that they manage in the United States.

As I have indicated, that operation has been reasonably successful. I have not investigated any other patterns of this type.

We have none in Canada, although another bill was passed two years ago for a group out in Edmonton called the Principal Life Insurance Company of Canada. The purpose of that company was similar to the purpose here, but that company has not yet been organized.

Mr. More (Regina City): You have answered my second question.

I referred from your initial remarks that this was probably the first time that an insurance company was being incorporated to serve mutual fund interests and under the aegis of a mutual fund.

Mr. Humphrys: Yes; this company and the one I have just mentioned.

Mr. More (Regina City): Yes; I was not aware of the previous one.

May I ask the President of the Company what has been his insuring practice up to now? I believe, generally, there is insurance in mutual fund investments.

Mr. Godfrey: Well, only in some of our plans; but, in effect, none of the provinces of Canada permits what we call dual licensing. They will not permit a mutual fund salesman to sell life insurance. We think this is wrong, because if a mutual fund salesman cannot sell life insurance he is going to sell all of the mutual funds he can; and if a life insurance salesman cannot sell mutual funds he is going to sell all the life insurance he can. There should be a proper balance.

This question of dual licensing is a provincial matter, and we have talked to various superintendents of insurance and government people. We are convinced that dual licensing, is so much in the interests of the public that once we incorporate this life insurance company they will permit us to sell in these various provinces. It is permitted in every state of the Union, and it has been successful. Nobody has been able to find anything to say against it.

Mr. More (Regina City): In the case of mutual funds, though, that is, where the salesmen can sell, say, \$20-a-month investments and so on, they are insured in a company?

Mr. Godfrey: Some of them are.

Mr. More (Regina City): And the same salesman sells both plans.

Mr. Godfrey: Yes; but he is not allowed to take any commission, and we make no money out of it. In fact, we use the Empire Life Insurance Company, but we and our salesman get nothing from them. This is just an added service that we give.

Mr. More (Regina City): You have answered the point. I was sure you must have an agreement with some insurance company, otherwise you could not compete in the business.

Mr. Godfrey: Yes; but we are not allowed to accept any commission or anything for ourselves.

Mr. More (Regina City): When you incorporate this company your salesmen will get commissions on their sales?

Mr. Godfrey: That is right.

Mr. More (Regina City): That was my only question.

The Chairman: Mr. Macdonald.

Mr. Macdonald (Rosedale): My question is addressed to Mr. Humphrys. I have understood that at least in the past it has been the policy of the Department not to approve of life insurance companies following a policy of stock in corporation whereby they operate as a unit, or, not only of the policy, but of having a share of the stock, or even a warrant to subscribe for a share of the stock, of a company that is doing life insuring? Am I right in my understanding that you have withheld approval of that kind of joint stock-life insurance transaction?

Mr. Humphrys: It depends on the extent to which warrants or options are proposed. We have not opposed a moderate use of stock options, or warrants, in conjunction with the formation and capitalizing of a company, but we have thought that it was not in the public interest to try to get a life insurance company started on the basis of issuing a very large volume of stock options. We have thought, and feared, that to try to start and to capitalize a company in that way could very well result in a stock promotion plan, based on the reputation and public acceptance of life insurance and the example of the very old and successful life insurance companies, has a means of selling stock on a quasi-speculative

basis. We could see nothing but disappointment for the unsophisticated investor, because it takes a long time to get a life insurance company established and into a position where it can distribute any profits to the shareholders.

We also thought that any excessive use of stock options and warrants would make it possible for promoters to launch a company, save for themselves a large proportion of the stock options and then, if the company were successful, they would do very well; but if it were not successful they would not have lost anything, and they could move on and leave it to others to pick up the pieces—principally, the insurance departments.

That has been the basis of our feeling about stock options in excess. We are not opposed to moderate use of it.

Mr. Macdonald (Rosedale): You do not consider this situation at all comparable to that, then?

Mr. Humphrys: No; there is no...

Mr. Macdonald (Rosedale): To be specific, I should say comparable to using the reputation of life insurance to sell mutual funds?

Mr. Humphrys: I did not think that this was a comparable case, Mr. Macdonald, because the principal activity here is the sale of mutual funds. The life insurance initially anyway, would be an adjunct to that operation and would make it possible to present a complete package to the prospect.

These may be some problems in the future, mind you. If mutual funds get into the pattern of having their own life insurance operation, I can very well foresee that life insurance companies may press more strongly than they have in the past for the right to sell investment contracts instead of merely life insurance contracts. This is a question that we may have to face one day, too.

Mr. Macdonald (Rosedale): But in this particular case the good reputation and means of this particular group have persuaded you that there is no risk involving the kind of situation you have just referred to?

Mr. Humphrys: Yes; we were influenced, of course, by the management reputation, and other reputation, of this group. But there is no question of stock options involved.

Mr. Macdonald (Rosedale): I am sorry, I did not hear your last sentence.

Mr. Humphrys: There is no question of stock options involved in this plan.

The Chairman: Mr. Cameron.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I wonder if you could lead me through this rather complicated jungle; I do not know my way through these jungles very well. Perhaps you could describe to me, more clearly than I have been able to gather from this memorandum, the actual chain of genealogical descent. Starting perhaps with Waddell & Reed, who appear to be at the top of the list, just how do the others hand together?

Mr. Godfrey: Well, Waddell & Reed is the American company. On the left of the chart you can see that the righthand column which is headed "Direct Ownership", goes into United Funds Management, which is in the box. At the present time—at inception—Waddell & Reed owns, as you will see from the righthand column, 80 per cent of United Funds Management, and it goes down from there. In two years it will own only 75 per cent. It is going to sell off at least 5 per cent of United Funds Management and it will continue to own no more than 75 per cent of United Funds Management. If you follow that right down—you will see the United Funds Management box there—and will notice that at the inception it is going to own 100 per cent of the life insurance company which is at the bottom. Then two years after the commencement of business it is going to own only 75 per cent of the life insurance company, and ten years after the inception of business it will own 66 per cent.

Now, when we want to find out what the effect of that is on the ownership of Waddell and Reed in the life insurance company, we go over to the left hand column, and that explains that at the inception Waddell and Reed will only own 80 per cent of the life insurance company because it owns 80 per cent of United Funds Management. Two years after commencement of business it will own 56.25 per cent, and ten years after commencement of business will bring it down to 49.5 per cent. If you just follow that chart it goes right back into the life insurance company.

And I think that really explains it. If you go over to the right hand column as far as you can, when we talk about "Other Shareholders" these will be essentially Canadian shareholders. We talked about "Direct and

Indirect Ownership" and, at the inception, because they own 20 per cent of United Funds Management they will own 20 per cent of the life insurance company. At the end of two years they will own 43.75 per cent of the life insurance company, and at the end of ten years they will own 50.5 per cent. This was the objective we had in mind; to ensure that in ten years time Canadians would have a beneficial ownership in this life insurance company of over 50 per cent.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Thank you. Now what is the relationship between United Funds Management Limited, which I gather is an investment management company, and the United Accumulative Fund Limited?

Mr. Godfrey: The relationship is that they have an agreement. In other words, United Funds Management has an agreement with United Accumulative Funds that United Funds Management will manage the portfolio of United Accumulative Fund. United Accumulative Fund's sole business is buying and selling stocks, or investing in stocks, put it that way.

Mr. Cameron (Nanaimo-Cowichan-The Islands): They also receive money from the public.

Mr. Godfrey: That is right. They sell their shares, get money from the public and invest it in stocks.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes.

Mr. Godfrey: United Funds Management advises the fund what stocks they should buy and what stocks they should sell. I think their advice has been pretty good, because when we started United Accumulative Fund in 1957 I think our net asset value was \$3.74 a share, and yesterday it was \$10.65 a share; so that they have done a good job for us.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Were United Funds Management Limited and United Accumulative Fund Limited established approximately simultaneously?

Mr. Godfrey: No; United Funds Management was started in 1954.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Then what did it do before the establishment of United Accumulative Fund?

Mr. Godfrey: At that time there was a fund which was incorporated in Canada called United Fund of Canada Limited to invest in Canadian stock, but the shares were sold to American residents. That fund was called an NRO, a non resident owned investment company. United Funds Management managed that fund, and it got up to about \$30 million in assets.

After about three years we decided that as it had been quite successful selling these mutual funds in the States with Canadian stocks we would start a Canadian fund, which we called the "small fund" to sell to Canadian residents. The small fund is now \$330 million and the big fund is \$9 million; this has been much more successful. The Americans have not shown the same interest in buying United Funds Canada and there has been the equalization tax which has prevented us selling the shares in the United States.

The Chairman: Prevented or inhibited?

Mr. Godfrey: Well, prevented; nobody is going to pay the tax to buy our shares.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Now, if we could go on a little further, I see the United Accumulative Fund Limited now has assets in excess of \$300 million.

Mr. Godfrey: I think it is \$330 million as of Friday.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes. Now, could you give me any idea of the amount of what you might call Canadian savings that was invested with the United Accumulative Fund to build up this asset of \$300 million?

Mr. Godfrey: We sell only to Canadians. A few people—I think out of our 130,000 shareholders about 400—have moved to the States since we sold them. They may have been Americans living in Canada or Canadians that have moved to the States. So there were about 130,000 Canadians—and really, I think it is over that now—and about 400 Americans. You can say 99.9 per cent are owned by Canadians.

Mr. Cameron (Nanaimo-Cowichan-The Islands): About what volume of investment funds flows into United Accumulative Fund every year from the Canadian public?

Mr. Godfrey: They redeem as well as buy, and lately it has been more in balance.

Mr. Cameron (Nanaimo-Cowichan-The Islands): New savings have gone in annually into this fund.

Mr. Miller: During the last fiscal year for United Accumulative Fund the gross flow was approximately \$100 million, this year it is somewhat less than that.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Under the heading of new investment?

Mr. Miller: New money received from Canadian residents. The actual figure may have only been about \$97 million, but it is very close to that.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Now, could you give me some information about the direction of your investment. How much of it is invested in Canada and how much in the United States?

Mr. Godfrey: Until about two or three years ago, I believe in 1964, we were practically 98 per cent in Canada. About a year and a half ago our investment advisers felt that there were more opportunities in the United States as well as special situations, so at the present time I think it is 59 per cent in American securities and 41 per cent in Canadian securities. Now, that can change. It has been quite a shift.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes, indeed. What will be the investment policy of this insurance company that you are establishing? Will it follow the general pattern that one sees in Mr. Humphrys' report of investment policies of Canadian insurance companies?

Mr. Godfrey: Yes; to begin with we will just buy government bonds and so on; we will expand into mortgages eventually, but probably it will be 100 per cent Canadian. The type of investing for an insurance company is different from that for a mutual fund. We are an equity fund; we believe in equities not in bonds; we are not a balance fund; we do not put 30 or 35 per cent of our money in bonds and preferred shares. Except for periods when we think the market may be a little high and when we might go what we call defensive, up to 15 per cent, we are 100 per cent in equities.

Mr. Cameron (Nanaimo-Cowichan-The Islands): May I ask a question of Mr. Humphrys at this point? I rather gathered from

reading your report that there is quite a large proportion of Canadian life insurance funds invested in the United States.

Mr. Humphrys: There would be quite a large proportion, Mr. Cameron, to cover the liabilities of the companies in the United States, because a number of our large life insurance companies do a great deal of business in the United States. Generally speaking, the policy of Canadian life insurance companies is to match their assets and liabilities by currency. So that if a company were doing business in Canada only, its insurance policies would be in terms of Canadian dollars, its liabilities would be in terms of Canadian currency, and its assets would then be almost exclusively in Canada. The Department would discourage a company from putting itself in a position of taking an exchange risk by having its assets in one currency very much out of balance with its liabilities in that currency.

Mr. Cameron (Nanaimo-Cowichan-The Islands): But they are very large, are they not? Almost 50 per cent in many fields of investment.

Mr. Humphrys: Well, they must cover their liabilities in other countries with local currency. And some of our large companies have more business outside of Canada than they have in this country.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Is there anything to prevent their having a larger proportion of their investment in the United States than is required to cover their American liabilities?

Mr. Humphrys: There is no prohibition in the law. The law requires a company to cover its Canadian liabilities to the extent of at least two thirds with Canadian assets. In actual practice the companies follow very closely a policy of matching currencies. And, while we have nothing in the statute, the Department would certainly be critical of a company that was very heavily over-invested in a currency other than Canadian.

Mr. Macdonald (Rosedale): And you would encourage them to adhere to this policy by offering not to renew their certificate if they did not?

Mr. Humphrys: We do not make any threats, Mr. Macdonald. If we had to do any real encouraging I think I would have to say that we would bring it before Parliament if we could.

Mr. Cameron (Nanaimo-Cowichan-The Islands): It does seem to me, Mr. Chairman, that this is an aspect of a proposition such as this that this Committee or this Parliament should be considering, in view of the incessant announcements that were made by various dignitaries that Canada simply must have an inflow of investment capital in order to keep our economy expanding. And I think it should be of some concern to us just what proportion of the savings of the Canadian people are not invested in expanding the Canadian economy but in another economy. That is my concern about this whole proposition.

There is another question I would like to ask Mr. Humphrys similar to the ones I asked him on a previous occasion. You were kind enough, Mr. Chairman, at that time to let me ask those questions although they did not have any relevance strictly to the Bill before us. It would not be fair I suppose, Mr. Humphrys, to ask you to say whether you thought the addition of new life insurance companies will tend to lower costs to the holders of life insurance policies in Canada. Is this the sort of competition that would reduce costs, or would it, on the other hand, be likely to increase costs because you are adding personnel to the administration of what is, after all, a fixed amount of savings of the Canadian people.

Mr. Humphrys: I do not think one could make a categorical answer, Mr. Cameron. The savings of the Canadian people have not, in fact, been fixed; they have been rising very rapidly over the years.

Mr. Cameron (Nanaimo-Cowichan-The Islands): It is a fixed sum at any period and you can double the number of insurance companies, but you are not going to alter the pool in which they all have to fish at any particular time. That is what I mean by a fixed amount of savings.

Mr. Humphrys: There is a certain competition, of course, between life insurance companies and other channels of saving. In recent years the life insurance industry has felt it has lost its traditional place in the sense that the proportion of savings flowing into life insurance has been less than in past years, because the competitive channels have become more vigorous and have drawn out an increasing proportion of the savings.

I think the introduction of new insurance companies would not necessarily—looked at, say company by company—result in a lower-

ing of costs. I think a vigorous degree of competition amongst companies marketing the same product tends to reduce the cost to the customer and increase the drive towards higher efficiency. I think that is really about as far as I could go, Mr. Cameron. Neither can I say that the introduction of new companies would necessarily increase the cost, although there is some expense of forming a company and getting it launched. I think though, that the position there is perhaps not different from that of other businesses of commercial enterprises. New entrants into any particular activity incur some expense in getting started, but whether they result in higher costs or lower costs—I could not say.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Other enterprises, Mr. Humphrys, I may point out to you, may be productive enterprises adding to the wealth of the country but an insurance company does not do that. The insurance company deals with the wealth that is produced and the savings that the Canadian people make at any time. I would still like to know your opinion of whether it is possible for additional personnel injected into this particular industry to have any effect other than to increase costs. It seems to me that the overhead costs over the whole industry are going to go up with the incorporation of more companies.

Mr. Humphrys: I do not think that any one administrative unit can necessarily do all the business, but as the volume of business grows, you must expand the administrative facilities to deal with it. I do not think it necessarily follows that it is more efficient to do the entire operation in one gigantic administrative unit, than to have a number of them. Furthermore, I think there may be some advantage to the public in having a variety of minds working in a particular field to provide an opportunity for introducing new ideas and different approaches, which I think is the basis of the competitive system. I do not think the introduction of new units necessarily results in higher expenses.

Mr. Cameron (Nanaimo-Cowichan-The Islands): This is a hypothetical question. Would you be concerned if the present, to my mind, quite dangerous rate of additional life insurance company in corporations were to be doubled suddenly, and instead of dealing as we do every session with about a dozen, we had 50 or 60 new ones?

Mr. Humphrys: Yes.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Why?

• (1.00 p.m.)

Mr. Humphrys: I think if you carry the idea to extremes, they would not be able to survive.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I am not so much concerned about their surviving; I am concerned about their effect on the cost to the Canadian public. It is, in effect, the administration of their savings.

Mr. Humphrys: I think the question of survival is of importance too, because the nature of life insurance companies is to engage in long-term contracts. If a company enters into long-term contracts with the public and then is unable to carry through and administer them it results in poor service and waste.

Mr. Macdonald (Rosedale): These people should get what they paid for, then.

Mr. Humphrys: If it fails to survive, then it cannot pay off the contract.

Mr. Cameron (Nanaimo-Cowichan-The Islands): That is all I have to say. I must say I find Mr. Humphrys' answers a little unconvincing; he has not answered my fundamental point that there is, at any given period, a fixed volume of Canadian savings, and it does seem to me incontrovertible that a greater number of personnel involved in dealing with those savings must add extra cost to the management of the Canadian public's savings.

I believe, Mr. Chairman, that this Committee should seek to find some means of proper investigation so that we can examine the costs to the Canadian public of maintaining this enormous and growing conglomeration of life insurance companies. I think this is a responsibility that this Committee should undertake.

The Chairman: I think this is a useful line of inquiry. Speaking without taking a detailed look at it, this may be an area that should be looked at if the House refers to us the annual report of the Department of Insurance. We might want to look into the possibility of having this done.

Mr. Macdonald (Rosedale): I just want to make clear that I would not like you to think we accept Mr. Cameron's arguments. I think it is highly controvertible that under certain circumstances adding more companies to the field, is necessarily going to increase costs. As the Superintendent said, competition is a very good discipline to keep costs down.

I would like to address a question to Mr. Godfrey. On the basis of the plan and with particular relation to the draft amendment, I understand the situation to be—let us take it 10 years after commencement of the business—that Waddell and Reed is prepared to accept the risk that if some part of that ownership held by other shareholders goes into non-resident hands, so as to put the non-resident holding over the prescribed limit, then Waddell and Reed will lose its voting rights altogether.

Mr. Godfrey: I think the key to why they are prepared to take this risk is that section 16 (a) of the Canadian and British Insurance Companies Act provides that the Board of Directors can prevent the transfer of shares from Canadian residents to American residents, so that Waddell and Reed and the Board of Directors of this Canadian company will make sure that none of these shares are sold by Canadians to Americans; otherwise Waddell and Reed would lose its voting rights.

There could be one leakage; that is, the Canadian resident could retire and move to Miami, Florida in his old age, and Waddell and Reed would have to be prepared to sell an equivalent number of shares owned by that Canadian resident to Canadians to regain their voting power.

Mr. Macdonald (Rosedale): They have a strong incentive then, to maintain, the limits.

Mr. Godfrey: That is right. The Board of Directors will co-operate by refusing to permit the transfer of shares from Canadians to Americans and that is how they will control the situation.

Mr. Macdonald (Rosedale): Thank you, Mr. Chairman.

Mr. Clermont: When we look at Bill No. C114 it seems to be an ordinary bill, but when we are given all this additional information, it is not the same at all. How can we study an application on such a short notice? When you look at the bill there are eight short clauses, but when the explanation is given it is much more complicated. For instance for how much are you selling your shares? I am not speaking about the insurance shares but your own shares, the United Funds Management Ltd., and United Accumulative Funds Ltd.

Mr. Godfrey: United Accumulative Funds Ltd. shares are valued each day according to the market value of the underlying portfolio; it varies.

Mr. Clermont: If I have to buy, how much do I pay, and how much do I get if I have to sell?

Mr. Godfrey: If you have to sell, as of yesterday, I think it is \$10.65. If you have to buy you add on 8 per cent.

Mr. Clermont: What would the broker charge?

Mr. Godfrey: For the sale of shares of a mutual fund the ordinary charge, for up to \$5,000, is 8½ per cent. We do not sell through a broker; we each have our own salesmen selling across the country, just the same as life insurance is sold. They get a percentage, of this as a commission and the company gets a percentage.

Mr. Clermont: You mentioned that initially you will place your funds in Canada for investment. What do you mean by initially; one year, two years or three years? Look at the change that took place in the last five or six years. Ten years ago it was 98 per cent in Canada and 2 per cent in the United States; now it is 59 per cent in the United States and 41 per cent in Canada.

Mr. Godfrey: If we are talking about the life insurance companies, for the reasons mentioned by Mr. Humphrys we have no intention of selling any life insurance in the United States. We are going to sell in Canada only. It will be 100 per cent in Canada.

Mr. Clermont: I know, for your insurance.

Mr. Godfrey: For insurance it will be 100 per cent.

Mr. Clermont: What about your accumulative funds?

Mr. Godfrey: It depends upon the market conditions and opportunities and the opportunities in the United States. We have to consider the interests of our shareholders and until the government changes its policy and says something to us to the effect that "we would prefer that you buy more Canadian investment", or something like that, we follow where we think the shareholders are going to benefit most.

Mr. Clermont: Will there be any non-residents in the management?

Mr. Godfrey: In the management company? In the management of the life insurance company there will be no non-residents. There may be one or two directors representing Waddell and Reed. So far as I can see, two is the most.

Mr. Clermont: Mr. Chairman, again I want to stress the fact that it is not fair for a member of this Committee to be called upon to approve an application of this magnitude on such short notice without being provided with information before coming here.

The Chairman: Of course, it is up to the committee to decide whether they wish to approve this application. But I think Mr. Clermont's point is well taken and I propose to direct the Clerk that in future—I presume I will have the support of the Committee in this—all those who are going to appear before us with respect to private bills will be asked to provide copies of their statements and other supporting material some days in advance for circulation to the members.

As a matter of fact, Mr. Perley-Robertson's presentation of organized material in this way at the opening of the meeting is an improvement on other situations we have had to deal with in the past. I presume it would have been possible to do so earlier had circumstances required, but I think we should adopt, as an administrative practice from now on, based on your very constructive comment, the procedure that material be provided by other proponents of private bills and distributed at least three days in advance. Does that sound practical?

Mr. Clermont: At least.

The Chairman: A week in advance.

Mr. Clermont: Mr. Chairman, the members belong not only to this Committee; we have other commitments.

The Chairman: That is right; of course it could be argued that since we have been dealing with these things as a group for some time now, our expertise is such that we can cut to the heart of the issue almost immediately.

Mr. Clermont: Perhaps you are that expert but I am not.

The Chairman: I said that in a jocular vein. I agree with you completely; your point is well taken and the Clerk should be directed

that from now on, as a formal administrative practice of this Committee, details and introductory statements be provided for the members of the Committee, if possible at least a week in advance and definitely no less than three days in advance for circulation to the members for study before the public hearing.

Mr. Monteith: Do Waddell and Reed control or have an interest in any insurance companies in the United States?

Mr. Godfrey: Yes, they do; United Investors Life Insurance Company, which was started about five years ago. They sell life insurance, primarily term, in conjunction with a mutual fund. That has been very successful and because of that experience I think we convinced Mr. Humphrys that we had something.

Mr. Monteith: I am sorry I came in late, Mr. Chairman, but I have one other question and I think you answered it in your last reply. Is this insurance company part and parcel of selling shares or units in the mutual fund?

Mr. Godfrey: That is what we want to do. We cannot do it yet, but we expect we will be able to do it.

The Chairman: Are there any more questions?

Mr. More (Regina City): Do you mean by your answer, sir, that you expect the provincial law to be changed?

Mr. Godfrey: Yes. It is not a law; it is a policy. In fact, there is no law to prevent dual licensing, but the superintendents of insurance have generally frowned on it. They want life insurance agents to sell life insurance and not lawyers and others, as in the old days where everybody had a life insurance agency. That is a good principle, but they were not thinking about mutual funds at that point because there were no mutual funds. I think that most of them will come around.

The Chairman: Are there any other questions or comments?

Mr. More (Regina City): If you did not have your own sales force working through your own mutual fund sales office, a general company could have both ends of it, could they not? What about an investment company that sells a mutual fund. Can they not sell insurance?

Mr. Godfrey: Not through the same salesman.

Mr. More (Regina City): In other words, the position is simply that if this company is incorporated and becomes operational without a change of provincial attitude, your salesmen will not get permission to sell this insurance, so in effect all you are doing is assuming there is a profit to the Empire Life Insurance Company and you are going to take that yourself.

Mr. Godfrey: Not just that, because that would be so small that it would not really interest us. We could not survive on that. We will have to start building an independent sales force to sell this mutual fund until we get dual licensing. In certain provinces it will take longer, but we will have leads; we will have our 130,000 mutual fund shareholders who we think need some life insurance to go along with it, particularly with more accent on term which is a cheaper form of life insurance than endowment, participating life, and so on and which the ordinary companies do not sell because they do not find it profitable. They would prefer to sell the ordinary more expensive life insurance.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Do the United Funds Management Ltd. and the United Accumulative Funds Ltd., operate under provincial licence and not the provincial regulations?

Mr. Godfrey: There is no real provincial regulation of mutual funds. They have now formed a Canadian committee, which is inter-provincial; it has a federal representative and they are studying the whole mutual fund business. Out of that undoubtedly some form of regulation will come.

At the present time, the only regulation is that we have to file our prospectus with the various security commissions; we must make full disclosure. We have what we call a Canadian Mutual Funds Association. We have brought out a code of ethics and regulations, patterned on regulations that they have in the SEC in the United States and so on, and in effect the securities commissions have co-operated with us. They make it very difficult for people to get a prospectus accepted unless we do have these restrictions and policies.

Mr. Cameron (Nanaimo-Cowichan-The Islands): This is the Ontario situation?

Mr. Godfrey: Ontario and all the other provinces.

Mr. Clermont: Do you intend to call for the adoption of this bill today?

The Chairman: It is not up to me to call for the adoption of the bill before us. I present the clauses to the Committee and it is up to them to carry them or not.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I agree with what I think is Mr. Clermont's mind. We should postpone this until we have had a chance for further study.

Mr. Clermont: I am very sorry, Mr. Chairman, for the sponsor, but again I stress the fact, not because I want to block this bill, that it is not fair to ask members of this Committee to adopt it today. When you call the bill clause by clause, for my part I will say, on division. I am not going to call for a vote but I will say, on division, because it is not fair to ask the members of this Committee to approve such a bill within an hour. I do not think it would be fair to some of our colleagues in the House of Commons who might say, it is approved by the Finance Committee so it is all right with us.

The Chairman: Mr. Wahn, may I call on you to comment?

Mr. Wahn: I have a very brief comment, Mr. Chairman. The material in the memorandum which is now before the Committee is almost exactly as presented in the House on second reading. I thoroughly agree with Mr. Clermont's comments in view of the number of committees we have, that in addition to that perhaps this type of memorandum should be made available in advance to the members individually. But in fairness, the material in the memorandum has been essentially in *Hansard* since second reading on June 6. I know those interested in this company are most anxious that the bill should be dealt with today in Committee if at all possible so that it can go back to the House for third reading before the recess.

The Chairman: When is the earliest time this bill could be considered in the House?

Mr. Clermont: I do not want to discourage the sponsor who has said he expects third reading to come before the recess. From the little experience I have of House proceedings and the fact that it involves nearly 100 per cent non-resident ownership, I am surprised he expects third reading before recess.

Mr. Wahn: We understand it will go smoothly, Mr. Chairman, because of this

amendment which will reduce non-resident ownership below the 50 per cent.

The Chairman: When is the earliest this could be considered in the House?

Mr. Wahn: It could be reported today.

The Chairman: It could not be reported today.

Mr. Wahn: Then the earliest would be next Tuesday, presumably.

The Chairman: I think there is an important principle here and I am in the hands of the Committee. I make the suggestion—and again it is up to the Committee—that we have a further hearing Thursday morning to deal with any unanswered questions unless, of course, on further consideration members feel that other questions can be dealt with while we deal with the clauses, in which case we could continue sitting at this time.

Mr. Monteith: May I ask, Mr. Chairman, whether Mr. Humphrys commented favourably on the passage of this bill before I came in?

The Chairman: So far as Mr. Humphrys is concerned I do not think it is his policy to approve of the proposals. I think he indicates whether he has any objections. I believe he indicated that there were no such objections and he took his usual position which enables us to say there is nothing adverse with respect to his administrative investigation.

Mr. Humphrys: Yes, Mr. Chairman, I dealt with all the usual questions.

The Chairman: So we have two alternatives. We do not have authority to sit while the House is sitting. We can continue sitting for a brief period now or we can consider resuming Thursday morning even though, of course, the clauses can be called and voted on, pro and con, in the usual way. If I may express my own view, I think there is an important principle here of appropriate consideration.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I do not think we should try to go any further now because the whole point of Mr. Clermont's objections, which I agree with, is that we have not had a chance to look at this rather complex corporate set-up. I think if we are going to postpone it, it will have to be for another week in Committee.

The Chairman: As this cannot be considered in the House until Tuesday and no report could be presented to the House today, it may be that at least one or two representatives of the proponents could come back on Thursday. It may not be necessary to have the entire group and we may complete any consideration.

If there is not unanimous consent on this those who feel we should not complete it today should be prepared to move for adjournment in a parliamentary way. If it carries we will adjourn and if not we will continue.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I so move.

Mr. Comtois: I second the motion.

The Chairman: Moved by Mr. Cameron, seconded by Mr. Comtois, that we adjourn until Thursday morning. This motion is not debatable. All those in favour? Opposed?

Motion agreed to.

The Chairman: We will adjourn until Thursday morning at 11 o'clock.

Wednesday, June 28, 1967

• (1.41 p.m.)

The Chairman: Gentlemen, we are now in a position to begin our meeting.

When we adjourned yesterday we were discussing with the witnesses the substance of Bill C-114—the Preamble. Originally we had planned to have our next meeting to discuss this bill on Thursday as it was believed that the next private members' hour would not be until next week. However, it was discovered that there would be a private members' hour this week. Mr. Wahn then canvassed the members who were present and they indicated their willingness to have a meeting today and I, therefore, requested the Clerk to call this meeting. If it meets the will of the Committee, we will complete our consideration of Bill C-114 at this time.

Mr. Wahn: Mr. Chairman, I would like to express my thanks to the members of the Committee and to the Clerk for making this meeting possible. I was in error yesterday when I thought there would not be a private members' hour for private bills until next Tuesday, whereas there is one coming up to-

morrow. This is the reason for the urgency involved in today's meeting. I just wanted to express my thanks for the co-operation shown as it has helped us to prepare the bill.

Mr. Clermont: Mr. Chairman, am I right in my understanding that on the table which was distributed to us, under the main heading, "Waddell & Reed, Inc.", the sub-heading should not read "Direct and Indirect Ownership", but only "indirect"?

Mr. J. M. Godfrey (President, United Accumulative Fund Ltd.): That is right.

Mr. Clermont: What about the other heading, "Other Shareholders" under which there are three sub-headings: "Direct Ownership", "Direct Ownership" and "Direct and Indirect Ownership"?

Mr. Godfrey: The sub-headings under "Other Shareholders" are correct because the "direct and indirect" goes around into the life insurance company whereas one is direct ownership in United Funds Management Ltd. and the other is direct ownership in the life insurance company.

The Chairman: The only change required is to strike out the words "direct and" at the top of the first column.

Mr. Clermont: It makes quite a difference. I have another question, Mr. Chairman. The companies that are interested in the application of the United Investment Life Assurance Company are the United Investment Services Ltd., United Accumulative Fund Ltd., United Funds Management Ltd. and Waddell & Reed, Inc. Are the first two Canadian companies?

Mr. Godfrey: They are all Canadian companies except Waddell & Reed, Inc.

Mr. Clermont: With provincial or federal certification?

Mr. Godfrey: They have federal certification. No, excuse me, United Investment Services Ltd. is an Ontario company, but United Funds Management Ltd. and United Accumulative Fund Ltd. are both federally certified companies.

Mr. Clermont: United Investment Life Assurance Company will supply only their knowledge in the insurance field?

Mr. Godfrey: That is right. They will have no financial interest.

Mr. Clermont: I understand the sponsor, Mr. Wahn, intends to introduce an amendment to this bill when the clauses are called that will ensure that the non-residential registration will decrease in 10 years to, say, 66 per cent for United Funds Management Ltd. and to 75 per cent for Waddell & Reed, Inc., and so on?

Mr. Godfrey: That is right.

Mr. Clermont: Thank you.

The Chairman: Are there any further questions or comments on the Preamble?

Mr. McLean (Charlotte): The other day you said that you had transferred your investments from, I think, 2 per cent to 59 per cent.

Mr. Godfrey: In foreign securities?

Mr. McLean (Charlotte): Yes.

Mr. Godfrey: Yes, that is right.

Mr. McLean (Charlotte): Are you going to continue to reinvest more in the United States?

Mr. Godfrey: We have already been holding from 57 to 59 per cent for some months. This was the subject of a very lively discussion in our board meetings, as you can imagine.

Mr. McLean (Charlotte): The success of the insurance company will depend, to a great extent, on the success of the other holding companies. Of course, my personal opinion is that the United States are skating on very thin ice, at present.

Mr. Godfrey: Our present policy, as far as American securities are concerned, involves special situations which do not exist in Canada, such as the Polaroid Corporation, Derox Corporation, International Business Machines and some airlines.

Mr. McLean (Charlotte): As you know, it is said that the United States is the most powerful nation on earth. It was the most powerful nation on earth in the 1920's; yet it got us into the "hungry thirties" and it could do it again.

The Chairman: Is there any further discussion on the Preamble?

Shall the Preamble carry?

Preamble agreed to.

Clauses 1 and 2 agreed to.

The Chairman: Shall Clause 3 carry?

Mr. Clermont: When will the amendment be introduced?

The Chairman: It is an amendment to Clause 8. If anybody has any questions or comments with respect to a specific clause, I am sure they will speak up when I call the clause in question.

Clauses 3 and 4 agreed to.

The Chairman: Shall clause 5 carry?

On Clause 5—*Subscription and payment before commencing business.*

Mr. Lambert: When do you anticipate that you will receive the subscriptions for the \$500,000 in capital stock and the surplus of \$500,000?

Mr. Godfrey: We have the money now. It is all in short-term obligations. We are just waiting until the Company begins operations.

Mr. Lambert: This will not diminish in any way the corporate reserves required for other purposes?

Mr. Godfrey: Let me put it this way. We have about a \$2 million surplus in other companies of which we are using \$1 million for this purpose and this leaves us with \$1 million in reserves.

Mr. Lambert: This leaves you with ample reserve requirements with the Ontario Securities Commission, and any other statutory requirements for your other companies?

Mr. Godfrey: That is right. We expect to get \$250,000 of this back within two years because we are going to sell off at the same price. The million dollars will be for other short-term business.

Mr. Lambert: This is provided that you find buyers.

Mr. Godfrey: No; these will go mostly to our managers. We want the Canadians in the organization to participate in this Company. We think that is one of the fundamentals to its success.

Clauses 5, 6 and 7 agreed to.

The Chairman: I will now call clause 8. I understand, Mr. Wahn, you have an amendment to propose.

Mr. Wahn: Yes, Mr. Chairman. I move, seconded by Mr. Lind, that immediately following clause 7 a new clause 8 be added in

the terms which have been circulated to the members of the Committee and given to the Clerk and that existing clause 8 be renumbered clause 9.

The Chairman: I believe the Clerk has a copy of the amendment and the text of it has been circulated. I believe you explained it briefly when you presented the Bill to us. Do you have any further comments at this time?

Mr. Wahn: The purpose of this amendment is to give legal assurance that the non-resident ownership of shares in the Company will be reduced in accordance with the chart which has been circulated, and if the Company fails to do that it would lose its voting rights on its stock. I think that is a brief summary.

Mr. Godfrey: Yes; the non-residents would lose their voting rights.

The Chairman: Have you any supplementary comments, Mr. Godfrey?

Mr. Godfrey: I have tried to mesh it with the Act. I have discussed the amendments with Mr. Humphrys who was helpful and I think he is satisfied from the technical point of view.

Mr. Wahn: I understand, Mr. Chairman, this has also been cleared with Dr. Ollivier, the Counsel for the House.

The Chairman: I understand. Do you have any objections to the form as far as the technical requirements of your Department are concerned, Mr. Humphrys?

Mr. R. Humphrys (Superintendent of Insurance): No, Mr. Chairman.

Mr. Lambert: Page 2 of the typewritten amendment reads:

...no person shall, either as proxy or in person, exercise the voting rights pertaining to the shares of the Company held by a non-resident...

Are you satisfied that this means held directly or indirectly, that shares held by Canadians shall not have a declaration of trust behind them? In other words, that the beneficial right of ownership shall be Canadian?

Mr. Humphrys: This clause will suspend the voting rights, not of all non-residents but of a non-resident if that non-resident owns more than 50 per cent of the issued and outstanding shares, or if the shares are held

in his name or right or for his use or benefit. I think those words will cover the indirect ownership as well as the direct ownership.

Mr. Ballard: Mr. Chairman, perhaps some of my legally trained friends and colleagues will explain the meaning of subsection (3). It seems to me that the intent of this subsection is to nullify what has already been said in the first two subsections, except at the choice of the Company. Would you comment on that?

Mr. Godfrey: Subsection (3) contains exactly the same wording as subsection (4) of section 16 (c) of the Canadian and British Insurance Companies Act. It is possible that the shares might be voted illegally without their realizing that they are being voted illegally. That is, somebody could move from Canada to the United States without the Company knowing it and immediately become a non-resident which would push the percentages over what we have undertaken. In that case, somebody might come along in five years and say those proceedings are null and void because they voted, even though unwittingly.

That was why it was put into the Act which has a similar section about not voting. What it means is that if somebody votes when they should not have, the Canadian shareholders can come along and say you should not have voted; we will call another meeting and rescind the vote, if they are aware of the fact. But until the Canadian shareholders take that action it does not automatically nullify anything.

Mr. Ballard: My understanding of the section is that if the situation you described occurs, the action is voidable at the instigation of the Company but not of other people. I am wondering whether you are giving the same protection to third parties with this section as you are to the Company?

Mr. Godfrey: I think Mr. Humphrys knows more about this than I do. He was responsible for it going into the Act itself. What happens is that if nobody objects to the voting, and they probably would not object if they did not know it was illegal, everything is confirmed within a year. If Waddell and Reed, for instance, or United Funds Management, do not follow through with their undertaking—to begin with they would not be allowed to vote if you knew it—the Chairman and the Canadian shareholders would not permit them to vote. This would be

illegal. But if they do vote and people do not realize it is an illegal vote then the Canadian shareholders can call a special general meeting and rescind anything that happened due to that illegal voting, but they have to do it within a year.

Mr. Ballard: Let me try to be more specific. Let us suppose the Company does make a transaction with a third party, an insurance contract, and they find out within the specified period that the contract is not to their benefit or advantage, does this section not permit the Company—I am not saying that they would—to void that transaction by saying that we had contravened the actions of the first two sections? What I am saying is that the Company gets a different position from this subsection than a third party would get from the same subsection.

Mr. Godfrey: That is possible; I do not know whether there are situations where third parties would be relying upon a vote but they would certainly take a look at this Act, and if they are relying on changing their position upon some vote passed by the shareholders they would investigate to make sure that vote was legally passed.

This is the way they have to do it under this Act and the Canadian and British Insurance Companies Act. Any time there is a vote, somebody has to see that section 16 (d) has not been contravened, the same way you would have to do it here, so that no doubt they would investigate and get a list of shareholders to see whether they were resident and satisfy themselves that the vote was legal.

Mr. Humphrys: Mr. Chairman, it should be kept in mind that the voting takes place at a meeting of the shareholders of the Company and the matters taken up at the meeting and voted on would be by-laws—election of Directors and things of that nature. They would not usually involve contracts with the public so that it would be a matter really for the internal government and operation of the Company.

Mr. Ballard: This is precisely my complaint. At a general meeting it could be established that the election of Directors and officers is, in fact, illegal and if the Company so desired they could fall back on this section to establish the illegality of the elections which would probably void or outlaw all of the actions taken by the Company subsequent to that election. I do not see this happening but it is a possibility.

The Chairman: I will recognize Mr. Humphrys and then Mr. Lambert, a corporate counsel with some experience who may have a view to express. Perhaps, Mr. Wahn you may wish to join in.

Mr. Humphrys: The purpose of the clause and the corresponding section in the general Act is to avoid the very problem that you have described. It is to make sure that the actions are not illegal because of an inadvertent violation. It says specifically that the actions are not void and can only be voided by subsequent action of the Company, so that the Company and everyone who deals with it are not left in the position of wondering whether the action of the Company was legal when it took place. The intention was not to void all the actions by law but to give the Company a chance to look at them again with a properly constituted voting constituency.

Mr. Lambert: I think it is quite clear. A fundamental case in commercial law is the Royal British Bank case which illustrates precisely what Mr. Ballard is talking about, that neither the Bank nor the public can rely upon any inward deficiency, if outwardly everything appears in order.

Mr. Godfrey: It is inward management principle.

Mr. Lambert: That is right.

Mr. Godfrey: So that in effect, they just could not...

Mr. Lambert: That could not possibly arise.

Mr. Godfrey: They were stopped from so doing.

The Chairman: Mr. Wahn, do you want to give us the benefit of a professional opinion?

Mr. Wahn: I agree with Mr. Lambert's legal opinion. I do not think it would invalidate contracts for insurance, for example.

Mr. Ballard: What I was looking for, Mr. Chairman, is precisely what has happened—to have some statement from some members of the Committee.

The Chairman: You know, this is remarkable. We have three eminent corporate counsel and all of them are giving the same opinion. This should be noted in our records in some way.

Mr. Clermont: Do you share their opinion?

The Chairman: I defer to my seniors but it seems to be consistent with my own opinion.

Mr. Clermont: Thank you.

The Chairman: Do any of the accountants want to say anything?

Mr. Ballard: I have said too much now.

The Chairman: Are there any other professions here? Lumber dealers? Bank managers? Does anybody else want to give any thoughts on this?

Is there any further discussion with respect to the amendment?

Mr. Lambert: I have one other point. I hope that some day when we get into this idea of Canadianization of companies, they will not use the idea of merely residence as giving you the mantle of Canadianism. The Bank Act and some of the more recent legislation have gone to the logical step of insisting on Canadian citizenship because residence, as you know, flows across the border. All you have to do is to have corporate executives establish their residence and they

hold the shares, and while there is compliance with the law in spirit, the control is still with the exterior.

The Chairman: Is there any further discussion of the amendments?

Shall the amendments carry?

Some hon. Members: Agreed.

Clauses 8 and 9 as amended agreed to.

Title agreed to.

The Chairman: Shall I report the Bill as amended?

Some hon. Members: Agreed.

The Chairman: This concludes our Agenda, gentlemen. Therefore, we adjourn to the call of the Chair. I do not think we have anything before us to consider next week.

Mr. Lambert: All I can say is that I hope I shall soon be sponsoring a bill before this Committee for the same purpose but that it is an all-Canadian operation. This may happen.

The Chairman: I thank you, gentlemen. The meeting is adjourned.

APPENDIX "E"

BILL C-114

AN ACT TO INCORPORATE UNITED
INVESTMENT LIFE ASSURANCE
COMPANY—MEMORANDUM*Purpose of Incorporation*

The Company is to be incorporated for the purpose of carrying on the business of a life insurance company throughout Canada.

Control

United Funds Management Ltd. will subscribe for \$500,000 of the capital stock of the Company and will make further contribution to surplus of \$500,000.

Within two years of commencement of business, United Funds Management Ltd. will sell to officers, directors and employees of the Company and, if necessary, others who are Canadian residents 25 per cent of the capital stock of the Insurance Company for the same price.

United Funds Management Ltd. is an investment management company which is the investment advisor with respect to the portfolio of United Accumulative Fund Ltd., a Canadian mutual fund with assets in excess of \$300,000,000. Over 99 per cent of the 130,000 shareholders of United Accumulative Fund Ltd. are Canadians, as are 13 of the 15 members of its Board of Directors.

Approximately 80 per cent of the shares of United Funds Management Ltd. are presently owned by Waddell & Reed, Inc. an American investment company managing the portfolio of United Funds, Inc., with assets in excess of \$2,000,000,000.

Canadian Participation and Ownership

Approximately 19 per cent of United Funds Management Ltd. shares are owned by Canadian residents.

Waddell & Reed, Inc. will, within two years of commencement of business of the Insurance Company, make a public offering to Canadian residents of a sufficient number of the shares of United Funds Management Ltd.

to bring its share ownership to below 75 per cent. Accordingly, within two years of the Insurance Company commencing business, the indirect ownership of Waddell & Reed, Inc., in the Insurance Company will be reduced to a maximum of 56.25 per cent with practically all of the balance owned by residents of Canada.

United Funds Management Ltd. will undertake to sell to Canadian residents within ten years of the commencement of business of the Insurance Company, sufficient shares of the Insurance Company then owned by them to bring the indirect ownership of Waddell & Reed, Inc. in the Insurance Company to below 50 per cent.

Nature of Business to be Conducted

The Insurance Company will initially offer for sale Term insurance and Ordinary Life insurance, stressing forms of such insurance which complement the investment requirements of the shareholders of the mutual fund, United Accumulative Fund Ltd. The Fund has over 130,000 shareholders.

Other policies of insurance will be studied and introduced if found to be appropriate.

Operations

The insurance sales force will operate out of the existing branch offices of United Investment Services Ltd., the selling organization, which is a wholly owned subsidiary of United Funds Management Ltd. There are presently 62 such branch offices serving almost all of the major cities across Canada and ready to provide facilities and service to the insurance sales force.

Management and administrative personnel and facilities of the parent Company and its subsidiaries are available to provide efficient low-cost service in the establishment and administration of the Insurance Company, including computer facilities and experience in servicing 130,000 customer accounts many of which remit investments on a monthly, quarterly or annual basis, one form of which includes the handling of insurance applications

and claims. Experienced management personnel will be readily available for consultation and an estate settlement department is already in operation.

Investment Policy

Initially, the Insurance Company's funds would be invested largely in Federal, Provincial and Municipal bonds, however, with growth, the investment advisors of United Funds Management Ltd. would be called upon to guide the Company in its investment activity to allow for diversification to include investment in corporate bonds, mortgages and other securities allowed under the Canadian and British Insurance Companies Act.

Feasibility Studies

Extensive feasibility studies and projections have been carried out by Eckler Brown & Company Ltd., a firm of consulting actuaries in Toronto, projecting that there should be an operating gain in the third year and subsequent years and that the cumulative operating gain should exceed the Surplus Strain some time in the fifth year and that by the tenth year, there should be a net surplus gain of \$1,400,000.

The actuary made his findings after several consultations had taken place between the Department of Insurance, the actuary and Company officers and an examination of United Investors Life Insurance Company experience had been conducted. United Investors Life Insurance Company, a subsidiary of Waddell & Reed, Inc., is an insurance company engaged in the sale, primarily, of Term Life insurance to complement the mutual fund sales of Waddell & Reed, Inc. in the United States.

Reinsurance

The Insurance Company would enter into reinsurance contracts to reduce the single case risk element in policies sold.

Management

The Insurance Company will be headed by:

Mr. Gordon E. Eddolls, B.Sc., President of United Investment Services Ltd., who has had former experience in the insurance industry.

Other management personnel will include:

Mr. Rodney S. C. Donald, M.A., M.B.A., President of United Funds Management Ltd., who has been chief executive of investment management for 7 years.

Mr. John Wm. Galbraith, B.Sc., C.P.A., Vice-President—Administration of United Investment Services Ltd.

Mr. Stanley R. Anderson, Barrister & Solicitor, Secretary of United Investment Services Ltd.,

Mr. William R. Miller, C.A., Treasurer of United Funds Management Ltd., and United Investment Services Ltd.,

The Company will employ a senior underwriter and such other specialists as may become necessary.

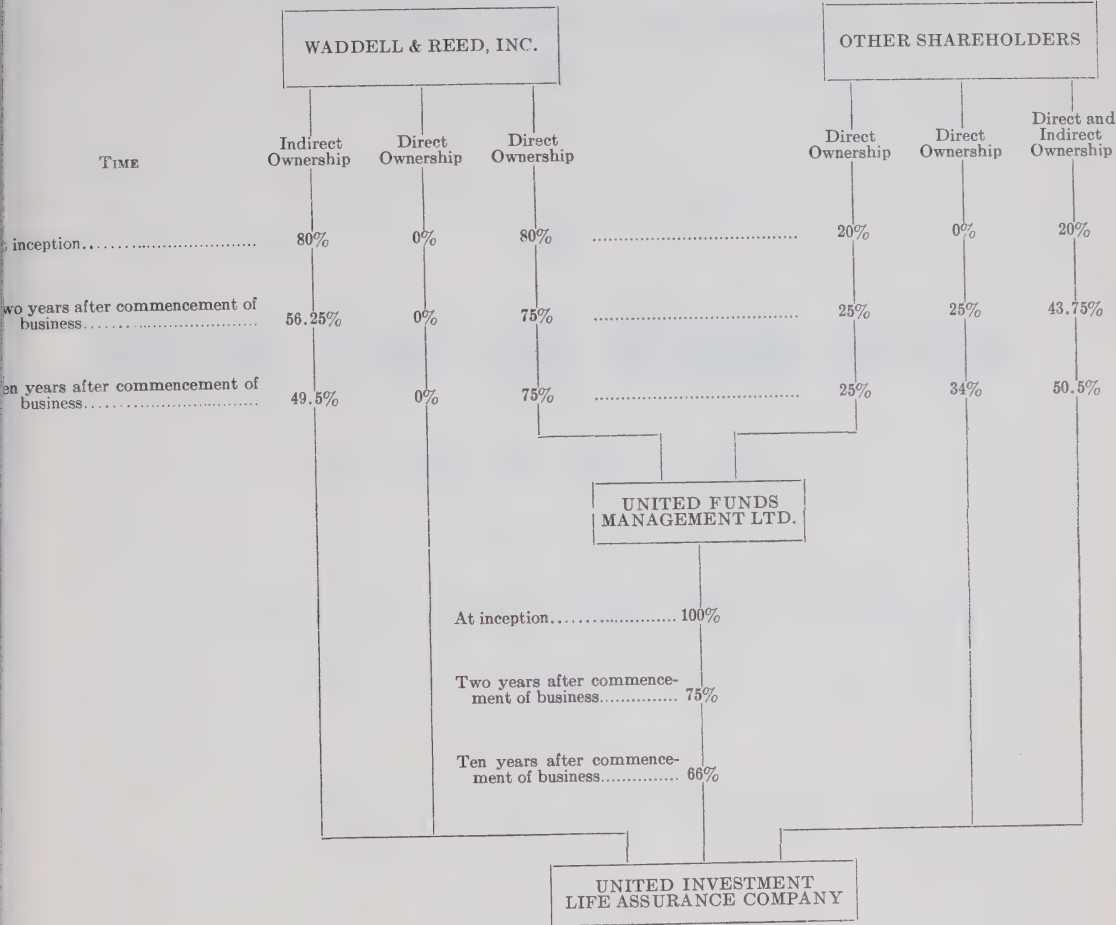
Eckler Brown & Company Ltd. will provide continuing actuarial service, both for the establishment of the Company's books, policies and manuals and for annual actuarial review.

Legal Counsel: Campbell, Godfrey & Lewtas,

Parliamentary Agent: Gowling, MacTavish, Osborne & Henderson,

Auditors: Clarkson, Gordon & Co.

OWNERSHIP OF SHARES IN UNITED INVESTMENT LIFE ASSURANCE COMPANY



HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament
1967

STANDING COMMITTEE
ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

THURSDAY, NOVEMBER 9, 1967

RESPECTING

Bill S-11, An Act respecting Principal Life Insurance
Company of Canada

WITNESSES:

R. W. McKimm, Parliamentary Agent; R. Humphrys, Superintendent of Insurance; Dennis R. Stewart, Vice-President and Director, Principal Life Insurance Company of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Gilbert,	Mackasey,
Beaulieu,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Laflamme,	Monteith,
<i>Cowichan-The Islands</i>),	Lambert,	More (<i>Regina City</i>),
Cantin,	Latulippe,	Noël,
Comtois,	Leboe,	Tremblay (<i>Matapédia-</i>
Flemming,	Lind,	<i>Matane</i>),
Fulton,	Macdonald (<i>Rosedale</i>),	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDERS OF REFERENCE

WEDNESDAY, October 4, 1967.

Ordered,—That the name of Mr. Leboe be substituted for that of Mr. Johnston on the Standing Committee on Finance, Trade and Economic Affairs.

THURSDAY, November 2, 1967

Ordered,—That Bill S-11, An Act respecting Principal Life Insurance Company of Canada, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest

ALISTAIR FRASER,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

FRIDAY, November 10, 1967

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

FIFTH REPORT

Your Committee has considered Bill S-11, An Act respecting Principal Life Insurance Company of Canada, and has agreed to report it without amendment.

However, your Committee recommends that the title of the French version of the Bill be altered to read "Loi concernant la Principale du Canada, Compagnie d'Assurance-Vie".

A copy of the Minutes of Proceedings and Evidence relating to this Bill (Issue No. 9) is tabled.

Respectfully submitted,
HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, November 9, 1967

(9)

The Standing Committee on Finance, Trade and Economic Affairs met at 9:45 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Comtois, Flemming, Gray, Irvine, Laflamme, Lambert, Mackasey, McLean (*Charlotte*), Monteith, Wahn (11).

Also present: Mr. Rynard.

In attendance: Messrs. R. W. McKimm, Parliamentary Agent; R. Humphrys, Superintendent of Insurance; *Representing Principal Life Insurance Company of Canada:* Dennis R. Stewart, Vice-President and Director; Ralph P. Forster, Secretary-Treasurer and Director; Lynn A. Patrick, Counsel and Director.

The Committee proceeded to consideration of Bill S-11, *An Act respecting Principal Life Insurance Company of Canada*.

On the preamble

At the invitation of the Chairman, the Sponsor (Mr. Lambert) introduced the Parliamentary Agent (Mr. McKimm) who, in turn, introduced the witnesses.

The Parliamentary Agent explained that the purpose of the present bill is to extend the expiry date of chapter 21 of the statutes of 1965, *An Act to incorporate Principal Life Insurance Company of Canada*, to June 30, 1969.

Mr. Stewart explained the reasons for the company's inability to incorporate since the Act of incorporation was passed.

Messrs. Humphrys and Stewart were questioned, and the preamble was carried,

Clauses 1 and 2 were carried.

On the title

The Committee noted that, although chapter 21 of the Statutes of 1965 gives the company a French name, the title in the French version of the present bill uses the English name of the company.

On motion of Mr. Laflamme, seconded by Mr. Flemming,

Resolved,—That the title of the French version of Bill S-11 be altered to read *Loi concernant la Principale du Canada, Compagnie d'Assurance-Vie*.

The title and the bill were carried.

Ordered,—That the Chairman report the bill without amendment.

At 10:30 a.m., the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, 9 November, 1967.

• (9.45 a.m.)

The Chairman: Gentlemen, I will now call the meeting to order.

(Translation)

This will be a non-official meeting; we will not proceed to any votes until we are in an official position to do so.

(English)

Our agenda today is to consider Bill S-11, an Act respecting Principal Life Insurance Company of Canada. We have with us the sponsor, the Hon. Marcel Lambert. I will ask him to introduce those who have come in support of this Bill.

Mr. Lambert: Thank you, Mr. Chairman. Gentlemen, several days ago I took the opportunity of circulating among all of you the last annual consolidated report of the Principal group which is really the sponsoring organization for this proposed Insurance Company, which they propose because this Bill is one to extend the corporate charter of the Principal Life Insurance Company which was incorporated in 1965.

I am now going to introduce Mr. R. W. McKimm—Ward McKimm—of Ottawa, who is the Parliamentary Agent and let him carry on to introduce the various officers of the Principal Life Insurance Company who are here today to answer whatever questions you may wish to put.

Mr. R. W. McKimm (Parliamentary Agent): Thank you. Hon. members, two years ago this Committee considered, approved, and ultimately Parliament passed an act incorporating Principal Life Insurance Company, and the Principal Life Insurance Company had, under the Canadian and British Insurance Companies Act, two years within which to register and to qualify to carry on business.

For good business reasons, which the Vice-President of the Company will explain to you, they did not proceed to register and get into operation within that two-year period. The sole purpose of the Bill which is before the Committee is to extend the time within which the Company may qualify to register and to commence operation.

I have with me today Mr. Dennis R. Stewart, Vice-President and director of the Principal Life Insurance group. Among his various other activities as Vice-President of the Company Mr. Stewart is in charge of investment policy. He is ably backed by the distinguished Mr. Ralph Forster, Treasurer of the Company. I am sure that these two gentlemen, who are active officers of the Company, will be able to answer any questions you may have.

Also present is Mr. Lynn A. Patrick, the Edmonton counsel for the Company, and Mr. Humphrys from the Department of Insurance.

Mr. Chairman, is it your wish to hear Mr. Humphrys first?

The Chairman: I think we should hear from Mr. Humphrys before you ask your witnesses to supplement your own presentation.

Mr. Humphrys, would you come forward and give us the views of your Department on the proposed Bill.

Mr. R. Humphreys (Superintendent of Insurance): Mr. Chairman and hon. members, as Mr. McKimm has explained, the purpose of this Bill is to extend the life of the Act that was adopted in 1965 incorporating this Company. The terms of the original Act followed the usual pattern for incorporating a life insurance company. The Act specified the provisional directors and stated that the required capital would be \$1 million which might be increased to \$4 million. It also stated that at least \$500,000 had to be paid in cash into the Company before they had their first organization meeting and that at least

\$500,000 capital and \$500,000 of surplus had to be paid in before they started business.

The Act gave the Company power to transact life insurance, sickness insurance and personal accident insurance, which is the usual list granted to life insurance companies. It specified that the Company would be subject to the Canadian and British Insurance Companies Act in the same fashion as other companies. The Company had until June of this year to become organized and registered but were not able to do so for reasons that I am sure Mr. Stewart will explain.

So far the Insurance Department is concerned, we were informed of the fact that the group of companies involved was under some financial strain and for these reasons and we thought it preferable for the group to resolve these other matters before they strained themselves further by trying to get the Insurance Company into operation. Our view was that it would be better to ask Parliament to extend the life of the Bill than to have the group scramble to try to get the Company organized within the original time limit. If this Bill is adopted, the Company will have until June of 1969 to get organized. Its ability to organize the Company will depend to a large degree on the financial results of the group this year or next year. It is my understanding that substantial improvement has been made in the re-organization affairs of the group and its financial position and we in the Department have no reason to take a view different from the view we took in 1965, indicating that we had no objection to this Bill and that we supported the application for incorporation.

The Chairman: Thank you, Mr. Humphrys. Mr. McKimm, perhaps you will now call on your colleagues to supplement your preliminary presentation.

Mr. McKimm: Thank you. Perhaps I could ask Mr. Stewart to explain briefly the reasons for not having proceeded with the registration of the Company, and then answer any questions members of the Committee might wish to put.

Mr. Dennis R. Stewart (Vice-President and Director, Principal Life Insurance Company of Canada): Mr. Chairman and hon. members, the main reason that we did not incorporate Principal Life or raise the capital for Principal Life under the original Bill was

that shortly after we received our first incorporation a tightening up in the Canadian economy forced a number of situations upon us that prevented us from raising the money, the first of which was in Alberta. We went through a certain amount of soul-searching after the collapse of financial institutions as we had seen them in eastern Canada and consequently the government in their wisdom thought that it would be necessary for each of the financial companies operating under their control to reappraise and to look closely at their investments to see that they were, in fact, in line and that their appraisals were covered adequately so far as investments were concerned.

We went through this, and after looking very closely at a number of our investments we decided that we should have more capital, which the companies in this case did put in, in order to further strengthen the capital structure in the organization. This required approximately \$1 million, through the group, in order for us to strengthen the underlying capital of the companies which, in turn, strengthened the investment policy of the corporation.

This money that we had earmarked for the commencement of Principal Life was then used to strengthen the group companies or the companies underlying the group structure which are also dealing in the investment field, in investment contracts—and we have a trust company as well.

The Chairman: Do you have any further explanation?

Mr. Stewart: There is one other thing I should perhaps mention. We thought we would try to reorganize our corporate structure in such a way that the company would operate in a more efficient manner, so we installed further IBM equipment which allowed us to put out a much better accounting of our stewardship and also allowed us significantly to reduce the expenses that were required to operate the group.

The Chairman: I might say that we are now in a position to proceed officially. We are, of course, on the preamble. If you have completed your initial presentation, we are now open to questioning. Mr. Clermont, you are first.

Mr. Clermont: Mr. Stewart, you said that you would look for more capital before

undertaking the Insurance Company. Is it your intention to look for capital in Canada only or go to other countries?

• (10.00 a.m.)

Mr. Stewart: No, we would not go to the market for capital; we would raise our own capital among our own group, and it would be a private company. We would not go outside Canada to raise capital.

Mr. Clermont: This means that the capital of the Insurance Company would be 100 per cent Canadian?

Mr. Stewart: That is correct. It also would be private. We would not go to the public, in the form that we know it, to get capital. The capital would be raised inside our own group.

Mr. Clermont: You said that in 1965 there was a tightening up in the Canadian economy.

Mr. Stewart: Yes, I did.

Mr. Clermont: Do you expect that within two years the situation may improve?

Mr. Stewart: I wish I knew the answer to that. I thought the answer to that question would come from here. I hope it will be improved. Frankly, I cannot see a tremendous improvement but then that is an amateur's viewpoint. It is a little difficult to say from our side of the fence just how it is going to improve.

Mr. Mackasey: It will improve if the opposition leave us alone. We will bring in good legislation.

Mr. Stewart: We hope it will improve.

An hon. Member: They will have to mend their ways.

Mr. Stewart: Just to answer your question—

The Chairman: Perhaps we should leave Mr. Stewart out of this.

Mr. Stewart: I think what I was saying at that stage was this: the tightening in the economy caused us, then, to look at the investments in our own portfolios in these underlying companies, and to do some reappraisal of our mortgage—

Mr. Clermont: I understood you well on that.

Mr. Stewart: So consequently with the money that we had originally raised, designed to go into this Insurance Company, we increased the capitalization of our underlying companies instead.

Mr. Clermont: The Superintendent of Insurance mentioned in this fourth remark that it is his understanding that the financial situation of the associated company has improved. What do you mean by "understanding"?

Mr. Humphrys: This Company, if formed, would be a member of one of a group of companies that are under common ownership. The Life Insurance Company would be owned by a holding company, which also owns some other financial institutions; the principal ones being two investment contract companies. There is also a trust company in the group. Now, the investment contract companies are not under the supervision of our Department, and the financial position of those investment contract companies would not have any effect or influence on the financial position of the Life Insurance Company if it is formed.

Our concern in the Insurance Department would be with the financial strength of the Life Insurance Company. We would look to see to it that the capital funds as required by the Act of incorporation are paid into the Life Insurance Company and are invested independently of other activities of this financial group, and we would look to the future investments of the Life Insurance Company to be independent of other members of the financial group. We did not have authority or responsibility for investigating or supervising the affairs of the other companies in the group; consequently my remark was phrased because I do not speak from the knowledge of an investigation of our own, but from a review of the financial statements prepared by the company at the end of 1966 and I have not seen more recent figures concerning their experience in 1967.

Mr. Clermont: Mr. Chairman, in 1965 Parliament authorised that this possible Company deal in three fields of insurance; life insurance, sickness insurance and personal accident insurance. If, before 1969, this Insurance Company goes into business, which field do you expect you will specialize in?

Mr. Stewart: We would specialize in the self-completing insurance, or group creditor's

risk. At the moment we have \$27 million worth of life insurance in force, which is our group creditor's risk policy with the Life Insurance Company of Alberta. Now, this is self completing insurance that is based on the balance of the term left under our investment contracts that we sell. So it insures the unpaid balance.

The Chairman: Perhaps you could expand on that a bit.

Mr. Stewart: In what way, Mr. Chairman?

The Chairman: Well, give it a bit wider explanation.

Mr. Stewart: The nature of this perhaps is this: the investment contracts business sells an instrument they call a face amount instalment certificate. Now, we sell certificates that guarantee maturities from \$1,000; our average certificate would be somewhere around the \$5,000 range. These certificates are sold in terms of 5 to 20 years, and people put in an annual, monthly, quarterly or semi-annual instalment at a guaranteed rate of interest to complete a certain stated amount at the end of the maturity date of the certificate. Now, you can see the situation where a man who has paid for three years on a 10-year certificate for some reason dies, let us assume, and the balance of the contract is not completed. Well, the type of insurance that we would sell would be the type of insurance to complete the payments on the certificate in the event of death prior to maturity.

This is what we specialize in; this is the \$27 million that we now have written with an independent contract with the Life Insurance Company of Alberta. We wanted to get into this business because we feel that we have a basic knowledge of it, and we also have a certain amount of business in force that we could offer built in or capital business, you might say.

Mr. Clermont: Thank you, Mr. Chairman.

The Chairman: I think Mr. Laflamme has a question. If not, I will recognize Dr. McLean.

An hon. Member: Mr. Laflamme said you could get the money out of your pocket.

Mr. Stewart: Oh, in that case that is something we are going to have to work on. We hope we will be able to arrange it; we had hopes of raising part of this, we see where there is some glimmer of hope now.

Mr. McLean (Charlotte): Mr. Chairman, is the capital of your Insurance Company to be raised by your associated companies?

Mr. Stewart: No, the capital of our Insurance Company will be raised through Principal group, which is our—

Mr. McLean (Charlotte): Is that your associated companies or those owning your associated companies?

Mr. Stewart: No, those owning our associated companies.

Mr. McLean (Charlotte): Because I think we have had some experience with the people that own the Bank of Western Canada.

Mr. Stewart: Yes, I think what you are referring to, sir, is the fact that the First Investment Corporation, in its basket clause, might put up some of the capital for Principal Life; well, this will not be the case.

Mr. McLean (Charlotte): Do you expect that the financial situation is going to get better?

Mr. Stewart: Well, we have to be optimistic. I suppose it is going to get better some time. We have found—and I do not think it is a bad thing—that the breakdown of some of the investment and financial houses in Canada, and the re-look or the new look or the reappraisal of the situation by authority has caused the directors and the people in management of these various companies to have another look at their operations. The fact is, we have found that a lot of streamlining can be done and we have much better operations because of the happenings over the last few years than what we might have had, or what anybody might have had, under different conditions. I think this has probably been a good thing, this little bit of Spartan living that we have, and we just hope it does not last too long.

Mr. McLean (Charlotte): I attended an international seminar not long ago, and it was the consensus that things were going to get worse before they were going to get better.

Mr. Stewart: Well, I think that is generally our feeling; we feel there is another good year of belt tightening, and then perhaps two to three or four years before the interest rates get back to where they were two-and-a-half years ago.

Mr. McLean (Charlotte): And you are asking for an extension for how long?

Mr. Stewart: Two years.

Mr. McLean (Charlotte): Two years.

Mr. Stewart: I could just point out that some of this capital that we are discussing we have now raised, and we have put approximately a further million dollars into the capital structure of our underlying companies. This money that we would normally have available will have to be regenerated in some form. But I think there is some possibility of doing that.

Mr. McLean (Charlotte): But, if in your underlying companies the situation gets worse—

Mr. Stewart: No, it is getting better now.

Mr. Clermont: You need that money and more as well.

• (10.10 a.m.)

Mr. Stewart: No, I think that we have mended our fences in that respect. Under some of the ratio principles we will have to add corresponding capital as our liabilities grow but this will be met within the normal schedule of our capital requirements.

Mr. McLean (Charlotte): We can only hope for the best.

Mr. Stewart: Right.

Mr. Clermont: Mr. Stewart, I understand that you are in the mutual field?

Mr. Stewart: We have approximately \$73 million worth of assets under Principal group control, of which \$13 million is in mutual funds, \$12 million in a balance fund called collective mutual and—

Mr. Clermont: Mr. Chairman, would it be in order if I asked the percentage of investment of those mutual funds in Canada or abroad?

Mr. Stewart: In order to clarify that point one further step perhaps I should point out—and Mr. Humphrys raised this question—that the investment contract companies are composed of two corporations, one called the First Investors Corporation and the other Associated Investors of Canada, and they have \$54 million under their control. While these companies are not under the direct control of the Canadian and British Insurance Com-

panies Act, the Alberta Investment Contracts Act says that you must invest your funds in investments that are permitted or authorized under the Canadian and British Insurance Companies Act. Therefore our policy is such that we invest funds in the investment contracts companies under the Canadian and British Insurance Companies Act because those companies are authorized under the Investment Contracts Act of Alberta.

Mr. Clermont: You are not in a position to say that a certain percentage is invested in Canada and another—

Mr. Stewart: Of the \$77 million, 5.1 per cent of our total investment portfolio in principal group is invested in U.S. securities.

Mr. Clermont: That means it is under 2 per cent?

Mr. Stewart: No, it is over 2 per cent. It is 5.1 per cent.

Mr. Clermont: It is under 10 per cent?

Mr. Stewart: Yes. For instance, in principal growth fund, which is a small fund we started with assets of about \$800,000, at the moment about 41 per cent of those funds are in U.S. stocks, but of the total funds under administration it is 5.71 per cent and of our collective mutual funds it is 31.7 per cent. The collective mutual has assets of approximately \$12 million. The principal growth fund, of which 41 per cent, is in U.S. stocks, has assets of about \$900,000. Of the total group of \$77 million, 5.1 per cent of that is invested in the United States.

Mr. Lambert: As a supplementary question, Mr. Stewart, in so far as the two investment groups in Canada are concerned what is the primary nature of the investments? Is it real estate developments in Western Canada or—

Mr. Stewart: Mr. Lambert, as I stated earlier, these companies invest under the provisions of the Canadian and British Insurance Companies Act as it is spelled out in the Investment Contracts Act of Alberta and to give you First Investors' breakdown of their investments, at the end of September 7.2 per cent of the funds were in cash and short term notes, 25.1 per cent were in Canadian government and municipal bonds, 4.4 per cent were in corporation bonds, .3 per cent, or three-tenths of one point, were in stocks and 50 per cent of the money was in mort-

gages and 2.7 per cent in real estate. That adds up to 93.5 per cent. Also, 6.5 per cent of the total portfolio, which is \$30,265,000, was in capital and free reserves. Or \$1,956,664, and the mortgages are largely based in Western Canada. The other company has almost the same disbursement. Associated Investors have a slightly larger percent in mortgages, they have 59 per cent rather than 50 per cent, and slightly fewer government bonds. In First Investors 25 per cent of the funds are in government and municipal bonds and in Associated Investors it is approximately 11 per cent.

Mr. Flemming: May I ask how much of it is in long term and how much in short term?

Mr. Stewart: Unfortunately the bulk of our money is in long term.

Mr. Lambert: This is the nature of mortgages.

Mr. Stewart: This is the nature of mortgages, yes. I thought you were referring to the bond portfolio.

Mr. Flemming: In bonds.

Mr. Stewart: In cash and short term investments it is 7.2 per cent, and this is of the total portfolio.

Mr. McLean (Charlotte): In short term bonds?

Mr. Stewart: Yes, those are short term treasury notes, and this kind of thing, but 25 per cent is represented in mid-term and long-term bonds and, of course, the average term on our mortgages is 13 years.

Mr. Flemming: Speaking in general terms, Mr. Stewart, you consider that your liquid position is satisfactory for all your requirements?

Mr. Stewart: Yes, I do.

Mr. Flemming: You do not anticipate any—

Mr. Stewart: No. In fact, we have been looking at this for possibly the last two years and we have now arrived at certain formulas by which we feel we can almost indicate our liquid position from time to time. Our policy really is that as much as possible we are borrowing long and investing short within the liquidity of the portfolio.

Mr. Flemming: That is what we are all trying to do.

Mr. Stewart: That is right. It puts you in a position, of course, where you are keeping a lot of cash around which you might be getting higher yields, on, but we feel that this is a better safety measure than having the money invested in non-liquid securities.

The Chairman: What about the investment policy of Principal Life Insurance Company of Canada?

Mr. Stewart: Of course, for obvious reasons, the investment policy of Principal Life has not been established yet, but it will follow the Canadian and British Insurance Companies Act and the investments which are permitted under that act. We will try to use every prudent method at our disposal and in conjunction with the economic times to have either a conservative investment policy or possibly a slightly less conservative investment policy, depending on the situation at the time.

The Chairman: I am really referring to keeping in mind that we need to use good business judgment and prudence. If you can state them, what are your thoughts at the moment with respect to investments in Canada particularly?

Mr. Stewart: We would make all our investments in Canada. Our other companies have no investment outside of Canada with the exception of the mutual fund, which is a completely different animal when compared to our regulated field such as the investment contract insurance and trust operation. Our insurance company would invest in Canada and I would think as a start we would probably invest 55 per cent of the money in mortgages, probably 10 to 15 per cent of the money in mid-term or long-term bonds and the balance in short-term bonds and treasury notes.

The Chairman: At the moment your group is based in Alberta. Do you operate in other provinces?

Mr. Stewart: Yes. First Investors, one of our investment contract companies, operates in three Western Provinces and also in the Maritime Provinces. Our mutual funds also operate in those provinces. Associated Investors operates in British Columbia and Alberta and our trust company operates solely in Alberta.

The Chairman: What are your plans—at least as you see them at this time—for the operations of the Principal Life Insurance Company of Canada?

Mr. Stewart: Of course, we would start in Alberta and we would not require too much in the way of initial overhead because these plans that we now sell would be transferred to the insurance company that presently underwrites these group credit or risk insurance policies. We would change them around and put them into our own operation, which would just be a matter of technique. There is nothing much to it; it is actually just a matter of changing the letterhead.

The Chairman: My next question should perhaps be directed to Mr. Humphrys, and I want to assure the witnesses that there is no innuendo of any kind intended. What controls are there generally with respect to imprudent inter-company transfers where a life insurance company is owned or controlled by a group in other or allied fields?

• (10.20 a.m.)

Mr. Humphrys: There are provisions in the act which prohibit a life insurance company, or any insurance company, from lending money to a director or officer of the company or any member of the family of a director or officer, and they prohibit loans to or investments in any corporation if more than 50 per cent of the stock of that corporation is owned by a director or officer or a member of their family, or any combination of that group. However, the statute does not contain a prohibition against lending to or investing in a corporation that is under common control if it is owned by the same holding company as the life insurance company. As I have said on other occasions I believe that is a weakness in our statutory control. We have, in the Insurance Department, strongly expressed the view that all investments of an insurance company or of any company that is attracting funds from the public should be made in circumstances where there is no question of a conflict of interest on the part of those who have the investment decisions. We make this view known strongly to all companies under our supervision. I believe, however, that it is something that should receive attention as far as the legislative requirements are concerned.

The Chairman: Mr. Lambert is next and then I will recognize Mr. Mackasey.

Mr. Lambert: In this connection, though, there is the so-called insider or related dealing. An insurance company could have its, shall we say, operations made very difficult by your people if you found evidence of this. I agree with the policy that you have enunciated but while you have not got it on Statute at the present time the companies would do so at their peril if you felt this was an improper practice.

Mr. Humphrys: We would have no hesitation in making our views known to them, Mr. Chairman.

Mr. Lambert: And it would really be at their peril.

Mr. Humphrys: We would exercise all the means that we had available to rectify the situation.

Mr. Mackasey: Mr. Chairman, I was going to pursue that line. In other words, Mr. Humphrys, you feel this prohibition should be written into the Act?

Mr. Humphrys: I believe there should be expanded provision in the Statute dealing with this question of arm's length investment.

Mr. Mackasey: In the meantime, of course, the people here today have no right to be refused what they are after just because of the weakness in the Act. But we should amend the Act accordingly.

Mr. Humphrys: I believe it is a matter that should receive attention.

Mr. Mackasey: Mr. Lambert says it is at the peril of the company. I could not help but say it is also at the peril of the small investor.

Mr. Humphrys: I am not so concerned about the investor as I am about the policyholder in this case.

Mr. Mackasey: What I wanted to ask earlier, Mr. Chairman, more as a point of information, you mentioned the type of insurance that you would be dealing in.

Are these clients referred to this new insurance company from these related companies? Are these investors who—

Mr. Stewart: I will tell you what would happen. A client or customer would buy a savings certificate—

Mr. Mackasey: From one of your allied companies.

Mr. Stewart: Right. And the matured amount of the certificate is insured then.

Mr. Mackasey: The insurance portion of the principal companies is really to support, in a sense, the other companies?

Mr. Stewart: Yes.

Mr. Mackasey: You are not selling insurance directly then?

Mr. Stewart: In the Western United States, for instance, the people who distribute mutual funds and investment contracts also sell life insurance. In Canada at this stage there is no dual licensing. In other words you do not carry a securities licence, investment contracts and an insurance licence because there is no combination of those three. If we were to offer other forms of insurance or go out and solicit insurance then we would have to organize a sales staff in order to do it. But at this stage we would just be selling self-completing.

Mr. Mackasey: The real reason for this insurance company's existence is to provide insurance for those people who have invested?

Mr. Stewart: At this stage, that is correct.

Mr. Mackasey: You say "at this stage".

Mr. Stewart: What I mean is that there is a distinction. As time goes on we may very well want to offer some other form of insurance and at that time we would have to organize in such as way as to—

Mr. Mackasey: And is your charter wide enough for that?

Mr. Stewart: Yes.

An hon. Member: There is no restriction?

Mr. Stewart: This self-completing is simply term insurance.

The Chairman: Are there any further questions?

Mr. McLean (Charlotte): Would you not rather be taking it out of one pocket and putting it into another, if a man dies or if he

has not completed his payments and you are going to own the insurance company entirely? Does it not take about two or three years before an insurance company gets profitable?

Mr. Stewart: It takes longer than that, sir. It might take as long as seven or eight years.

Mr. McLean (Charlotte): In the meantime if you had any losses like that you would have to take them out of capital.

Mr. Stewart: Well, of course, yes, this is right. But if you are going to go into this type of business this is a—

Mr. McLean (Charlotte): Then you would be taking it out of one pocket and putting it in another.

Mr. Stewart: He pays for his insurance, mind you.

Mr. McLean (Charlotte): Pardon?

Mr. Stewart: He does pay for his insurance. There is a cost levied on the insurance policy which is actuarially figured so that you reduce your risk.

Mr. McLean (Charlotte): You are paying that money to someone else now.

Mr. Stewart: Yes, that is correct. In other words the customer who now buys an insurance policy pays for his insurance but payment for this insurance goes to the other company at this stage.

The Chairman: So actuarially speaking you are betting that more people will be paying premiums than will be—

Mr. Stewart: I am not sure that is completely correct, but it is something like that.

The Chairman: It is your type of terminology that—

Mr. Stewart: Yes, that is right. Yes, yes.

The Chairman: But your judgment is such that in organizing a company and so on you will be taking—

Mr. Stewart: That is generally within the actuarial calculation.

The Chairman: That is right.

Mr. Stewart: Also the capital of the company has to be such as to withstand losses that would perhaps occur under these conditions if the actuarial judgment was not correct.

Mr. Mackasey: Who is supplying the insurance now if somebody dies in the meantime?

Mr. Stewart: Right now? The Life Insurance Company of Alberta. It is an insurance company that operates in that function. We buy this insurance from them.

Mr. Mackasey: Are they in pretty well the same type of operation?

Mr. Stewart: No, they are not. They sell insurance in a general way just like a regular insurance company and have no affiliation, so far as I know, with any other financial operation.

The Chairman: Just before we conclude the questioning, Mr. Humphrys, I gather from what you are saying that this matter of inter-company transfers is being worked on and your Department expects recommendations to the Minister and so on?

Mr. Humphrys: Yes, Mr. Chairman.

Mr. Stewart: May I say a word on that?

The Chairman: Yes.

Mr. Stewart: In other companies, there is some concern I gather from reading the reports of Parliament and the committees of inter-company transactions in one corporation under common control loaning money to another corporation. In Alberta the Investment Contracts Act specifically states that there can be no cross-investment—officer, director or employee affiliation clause. You cannot loan money to an affiliated corporation or a corporation controlled by a common group. Also the Trust Companies Act, of course, has been strengthened in the past. We did not have that clause in Alberta up until last year. Now the affiliation clause has been put into that Act which prevents it in the same way as in the federal insurance act.

So all the companies we now operate are under a similar type of control, or perhaps even more rigid control, from what Mr. Humphrys spelled out.

The Chairman: As I said, I did not intend there to be any direct inference.

Mr. Stewart: No, no.

The Chairman: That is a matter of general concern which has some relevance to your type of operation.

Clauses 1 and 2 agreed to.

Preamble agreed to.

The Chairman: Before we deal with the title, I should draw to the attention of the Committee that through some inadvertence the French language Bill has the English name of the Company rather than the French name. This is merely an error in drafting, I suppose. I think we can easily correct this. I suggest we have a motion that the title of the French version of Bill S-11 be altered to read:

(Translation)

Loi concernant la Principale du Canada, Compagnie d'Assurance-Vie. You understand that there is a slight mistake in the drafting of the French Bill because the title of this Bill is given entirely in English instead of being given in French. Therefore, I will ask the Committee to make a motion to correct this mistake.

(English)

Do I have a motion?

Mr. Laflamme: I so move.

Mr. Flemming: I second the motion.

Some hon. Members: Agreed.

Motion agreed to.

Title agreed to.

Bill agreed to.

The Chairman: Shall I report the Bill without amendment?

Some hon. Members: Agreed.

The Chairman: The Committee is adjourned. Thank you very much, gentlemen.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations
and/or a translation into English of the French.

Copies and complete sets are available to the
public by subscription to the Queen's Printer.
Cost varies according to Committees.

Translated by the General Bureau for Trans-
lation, Secretary of State.

ALISTAIR FRASER,
The Clerk of the House.

10
HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament
1967

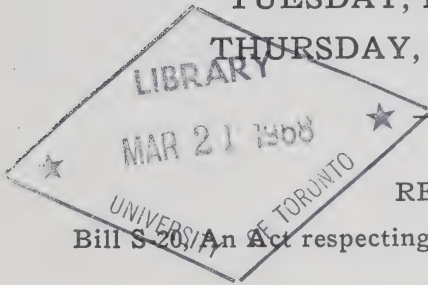
STANDING COMMITTEE
ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 10

TUESDAY, NOVEMBER 21, 1967
THURSDAY, NOVEMBER 23, 1967



RESPECTING

Bill S-20, An Act respecting Co-operative Trust Company Limited

WITNESSES:

Mr. R. Humphrys, Superintendent of Insurance; *Representing Co-operative Trust Company Limited:* Messrs. H. A. Wagner, General Manager, and A. Martin, Secretary-Treasurer.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont
and Messrs.

Ballard,	Gilbert,	Mackasey,
Beaulieu,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Johnston,	Monteith,
<i>Cowichan-The Islands</i>),	Laflamme,	More (<i>Regina City</i>),
Cantin,	Lambert,	Noël,
Comtois,	Latulippe,	Tremblay (<i>Matapédia-</i>
Flemming,	Lind,	<i>Matane</i>),
Fulton,	Macdonald (<i>Rosedale</i>),	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDERS OF REFERENCE

TUESDAY, November 14, 1967.

Ordered,—That Bill S-20, An Act respecting Co-operative Trust Company Limited, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

WEDNESDAY, November 22, 1967.

Ordered,—That the name of Mr. Johnston be substituted for that of Mr. Lepoe on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

ALISTAIR FRASER,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

FRIDAY, November 24, 1967.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

SIXTH REPORT

Your Committee has considered Bill S-20, An Act respecting Co-operative Trust Company Limited and has agreed to report it with the following amendments:

Clause 3

Renumber present clause 3 as sub-clause (1) of clause 3 and add the following:

- (2) Any individual who is a member of an organization that is a shareholder is eligible to be elected as a director and if any director ceases to be eligible for election he thereupon ceases to be a director.
- (3) Notwithstanding Section 18 of the Trust Companies Act an individual need not be a shareholder to be eligible for election as, or to be a director.

Clause 7

Delete the letter (a) in line 19 on page 2 and delete paragraph (b).

Clause 9

Add the following immediately after the word "made" in line 44 of page 2:
"and any such purchase of shares shall be at the par value thereof."

A copy of the Minutes of Proceedings and Evidence relating to this Bill (*Issue No. 10*) is tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, November 21, 1967.

(10)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:07 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Cantin, Comtois, Flemming, Gilbert, Gray, Irvine, Laflamme, Lambert, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Noël (14).

Also present: Messrs. Johnston and Nasserden (sponsor of Bill S-20).

In attendance: Mr. R. Humphrys, Superintendent of Insurance; *Representing Co-operative Trust Company Limited:* Messrs. H. A. Wagner, General Manager, and A. Martin, Secretary Treasurer.

The Committee proceeded to consideration of Bill S-20, An Act respecting Co-operative Trust Company Limited.

On the preamble

At the request of the Chairman the Sponsor of Bill S-20, Mr. Nasserden, introduced the witnesses. Mr. Wagner explained the purpose of the Bill and the operations of the proposed Company. Mr. Humphrys commented on the application and on the Bill itself.

Messrs. Wagner, Humphrys and Martin were questioned.

Certain reservations having been expressed concerning provisions of the Bill with respect to shareholders, it was agreed to adjourn to the call of the Chair in order to permit the Superintendent of Insurance to draft amendments which expressed the will of the Committee.

Accordingly at 12:15 p.m. the Committee adjourned to the call of the Chair.

THURSDAY, November 23, 1967

(11)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Beaulieu, Comtois, Flemming, Gray, Irvine, Lind, McLean (*Charlotte*), Monteith, More (*Regina City*), Wahn (10).

Also present: Mr. Nasserden (sponsor of Bill S-20).

In attendance: Mr. R. Humphrys, Superintendent of Insurance; *Representing Co-operative Trust Company Limited:* Messrs. H. A. Wagner, General Manager, and A. Martin, Secretary-Treasurer.

The Committee resumed consideration of Bill S-20, An Act respecting Co-operative Trust Company Limited, and copies of proposed amendments prepared by the Superintendent of Insurance were distributed to the members.

Messrs. Humphrys, Wagner and Martin were questioned.

In reply to a question, Mr. Martin tabled the annual financial statement of the Company which, by order of the Committee, is attached as *Appendix F*.

The preamble and clauses 1 and 2 were carried.

On clause 3

On motion of Mr. More (*Regina City*), seconded by Mr. Wahn,

Resolved,—That clause 3 be amended by renumbering present clause 3 as sub-clause (1) of clause 3 and adding the following:

- (2) Any individual who is a member of an organization that is a shareholder is eligible to be elected as a director and if any director ceases to be eligible for election he thereupon ceases to be a director.
- (3) Notwithstanding Section 18 of the Trust Companies Act an individual need not be a shareholder to be eligible for election, as, or to be a director.

Clause 3 was carried, as amended.

Clauses 4, 5 and 6 were carried.

On clause 7

On motion of Mr. Monteith, seconded by Mr. More (*Regina City*),

Resolved,—That clause 7 be amended by deleting the letter (a) in line 19, of page 2, and deleting paragraph (b).

Clause 7 was carried, as amended.

Clause 8 was carried.

On clause 9

On motion of Mr. More (*Regina City*), seconded by Mr. Monteith,

Resolved,—That clause 9 be amended by adding the following immediately after the word “made” in line 44 of page 2:

“and any such purchase of shares shall be at the par value thereof.”

Clause 9 was carried, as amended.

The title was carried, and the bill was carried, as amended.

Ordered,—That the Chairman report the Bill, as amended.

At 11.35 a.m., the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, 21 November 1967.

● (11:07 a.m.)

The Chairman: Gentlemen, for the time being we will proceed on an unofficial basis with the usual reservations.

Mr. Nasserden, as sponsor of the Bill, will you introduce the witnesses who are here in support of it.

Mr. Nasserden: Thank you very much, Mr. Gray. We have with us this morning Mr. Harold Wagner, General Manager of Co-operative Trust Company Limited, and Mr. Al Martin, Secretary. I think they are quite capable of speaking for themselves.

The Chairman: I will ask Mr. Wagner and Mr. Martin to make any introductory remarks they may have.

Mr. H. A. Wagner (General Manager, Co-operative Trust Company Limited): Thank you very much, Mr. Chairman. Objective in seeking this Bill is to extend our services outside of the Province of Saskatchewan, primarily because co-operative people in other provinces have invited us to extend such services to them. As most of you know, we have been in business since 1952, actively since 1957, so we have been in business now about 10 years. Our primary objective is to give estate planning and will-drawing service. We are now giving this service to approximately 2,000 people a year.

The Chairman: Excuse me, Mr. Wagner. I would like to note for the record that we are now able to proceed officially.

Mr. Wagner: It costs us approximately \$20 to \$24 to prepare a will. Therefore, we must have another source of income. In the beginning it was decided that we would offer a mortgage loan service to credit union members who were not in a position because of their size or for other reasons to make this type of loan. So the credit unions invested in this trust company and we, in turn, made mortgage loans to credit union members at as

close to cost as we could. By and large, from the earnings of this loaning operation we were able to give this estate planning and will-drawing service.

● (11:10 a.m.)

We have had a measure of success. Our total assets now are between \$39 million and \$40 million. I think the prime reason that we have not attempted to acquire this Bill earlier is personnel problems. We have had to train our own estate officers. We learned by bitter experience that we could not get them from other trust companies. This has been the limiting factor. However, I feel now that we are in a position conservatively to move into other areas and extend our service. Mr. Chairman, very briefly this is our objective.

The Chairman: Thank you. Of course, we are on the preamble of the Bill. Before questioning by members of the Committee we will call upon Mr. Humphrys to provide any comments he may have with respect to this application on behalf of his department.

Mr. R. Humphrys (Superintendent, Department of Insurance): Mr. Chairman and honorable members, the purpose of this Bill, as Mr. Wagner mentioned, is to convert this Saskatchewan trust company into a federal company and to bring it under the jurisdiction of the federal Trust Companies Act and, as a consequence, under the supervision of the Department of Insurance.

We have had our examiners visit the company to examine its conditions and affairs and we believe that we are familiar with its financial position. The company has had a successful period of growth. Its size increased slowly at first but is increasing now quite rapidly, and we believe it to be in a satisfactory financial position. We therefore have no reason to object to their application to Parliament to secure the status of a federal company.

I do have some comments on the Bill itself, Mr. Chairman.

The Chairman: You might as well give them now so we will have them in mind when questions are put.

Mr. Humphrys: As I said, the intention of this Bill is to convert this company to the status of a federally incorporated company. It is similar in purpose to many bills that have been before this Committee in recent years, mostly in connection with insurance companies.

The form of this Bill is a little different from the form that has been used over the years. It is similar to two other bills now before the House of Commons which deal with insurance companies. This Bill would continue the existing corporation as a corporation incorporated by Parliament. It would clothe it with all the powers that are given to a trust company pursuant to the Trust Companies Act and all the limitations that apply under that Act. So if this Bill is adopted the status of the company would be exactly the same as the status of any other federally incorporated trust company, with the specific exceptions that are mentioned in this Bill which I will mention in a moment.

The Province of Saskatchewan has enacted complementary legislation to this. The Company sought and obtained a private act in the legislature of Saskatchewan authorizing the Company to apply to Parliament for this Bill, indicating that if this Bill is adopted by Parliament then any jurisdiction that Saskatchewan had over the Company will terminate and the relative Saskatchewan legislation will be repealed. So the Company will at that point go forward as a federal Company and have the same status in all respects as if it had been incorporated by Parliament.

The special features of this Bill that differ from the traditional trust company can be found in clause 7 on page 2 of the Bill. Shareholders of this company are confined to:

7. (a) companies, societies, associations or corporations that are incorporated that are in the opinion of the directors operating as credit unions or co-operative associations...

Thus the company, the same as any other trust company, is incorporated in the form of a stock company but the class of shareholders is limited to co-operative organizations and to individuals who act as directors. Now this is intended merely to enable the directors to qualify pursuant to the terms of the Trust Companies Act.

The second special feature is that the shareholders have one vote each regardless of how many shares they own. This is consistent with the traditional philosophy of co-operative organizations where they have followed the philosophy of one vote per member rather than one vote per share.

The third special provision is that the Company has some limited power to purchase its own shares—this is in clause 9—but that power is limited in effect to a maximum of the number of shares that are otherwise issued in that same calendar year. It is in there by reason of the limitation on the classes of corporations or persons that can own shares. Consequently if an association or person wishes to divest itself of the shares of this trust company the trust company can acquire the shares really for the purpose, you may say, of re-issuing them the same year. So the power would not permit the company to make any substantial reduction in its capital stock, and there is no danger to the depositors.

The Chairman: Thank you, Mr. Humphrys. Now we are open for questions.

Mr. Macdonald (Rosedale): Mr. Chairman, as I understand him, the witness mentioned that the Company carried on principally the business of estate planning. What other trust activities does it carry on or is it contemplated at the present time it will carry on?

Mr. Wagner: Mr. Macdonald, I would say that we carry on just about every service that any other trust company gives.

Mr. Macdonald (Rosedale): You act as the executor and the administrator. Do you act as corporate trustee?

Mr. Wagner: Yes we do.

Mr. Macdonald (Rosedale): For whom, if I may ask?

Mr. Wagner: For federated co-operatives. I mentioned federated co-operatives but there are other organizations such as churches and so on.

Mr. Macdonald (Rosedale): Do you take funds on deposit?

Mr. Wagner: Yes.

Mr. Macdonald (Rosedale): And it is proposed to take funds on deposit in other

areas of Canada as you expand your business. What other areas of Canada do you have your eye on at the present time?

Mr. Wagner: This is quite a good question. Very often people are very anxious to get your services until you get into a position to give them.

Mr. Macdonald (Rosedale): Yes.

Mr. Wagner: And then they begin to wonder just what kind of a deal they can make with you. This is the position we are in right now. We are looking at British Columbia. We have had applications from Alberta and Manitoba and we think that we would concentrate certainly in western Canada in the beginning. Now we have had overtures from the Maritimes who feel that they are badly in need of our services but that is a long way away from Saskatoon.

Mr. Macdonald (Rosedale): These are essentially from within the co-operative movement itself.

Mr. Wagner: Yes.

The Chairman: I recognize Mr. Ballard, followed by Mr. Noël and Mr. Lambert.

Mr. Ballard: Mr. Chairman, I am a little unhappy with this method of incorporating a trust company. It is my own personal opinion that the incorporation of a fresh new company would have been much better. We have here the situation of a Company incorporated under the Saskatchewan Act subject to the rules and regulations of the Saskatchewan Act and then the same company, for all intents and purposes, is now going to be subjected to the provisions of the Trust Companies Act. I realize that clause 2 of the Bill does make this transfer. However, I think that there are some inherent difficulties in going from one jurisdiction to the other which possibly are not covered by clause 2, and I am willing to be guided by the legal people present on the effect of this. One thing, for example, that I am concerned about is this. I would expect, and I can be corrected on this, that the present company is able and probably does make loans to the shareholder companies and under the federal Trust Companies Act this would not be possible. I wonder if Mr. Wagner has any comment on that particular aspect.

Mr. Wagner: My comment would be that we only make loans to individual members by and large of co-operatives or credit

unions. Now we have no interest in making loans to corporations because this is handled by our Saskatchewan Co-operative Credit Society Limited.

• (11:20 a.m.)

Mr. Ballard: Under the Trust Companies Act you would not be able to make loans to any of these companies under any circumstance, nor would you be able to make loans to the representatives of those companies who act as directors on the board of this company. Is that not right?

Mr. Humphrys: Mr. Chairman, if I may comment on that, there is no prohibition in the Trust Companies Act against a trust company making a loan to a shareholder.

Mr. Ballard: I am sorry, Mr. Humphrys, I meant a director, and I was referring to the representatives of the shareholders. The shareholders are the companies; the representatives of the shareholders would be the directors.

Mr. Humphrys: I think the legal form would be that the directors, in order to qualify as directors under this Act, would have to own shares in their own right. Consequently this Bill makes it possible for individuals to own shares in order to qualify as directors, so that the directors of this company will be acting as directors and as shareholders in their own right, not as representatives of an organization that owns shares. There are two classes of shareholders permitted under this Bill. One class comprises companies, societies, associations or corporations that are in the co-operative field; the other class is individuals who are to act as directors, and people who are elected as directors will have to own shares in their own right in accordance with the requirements of the Trust Companies Act.

Mr. Ballard: Yes, but they will have to be elected as directors. This may be an anomaly of the Act, but they have to be elected as directors before they can own shares. Is that not right? And they cannot be directors unless they do own shares. It is sort of an anomaly.

Mr. Humphrys: It will have to be simultaneous.

Mr. Ballard: Mr. Humphrys, maybe you could tell me, then. Why did your Department acquiesce in the incorporation of this company by this method rather than follow the usual form?

Mr. Humphrys: The usual form that was used over the years creates a certain amount of awkwardness because we form a new company and it is empowered to enter into an agreement with the provincial company to take over the assets and liabilities of the provincial company. If we form a new company, that company has to become organized and to find its capital, and if the Bill requires the capital of, say, three million dollars before it can start business, then the position is that the federal company has to have its meeting, has to organize, has to find three million dollars in cash and put it in the bank, then come to us, get a licence and a certificate, then sign an agreement with the provincial company, take over the assets and liabilities, then issue shares in exchange for the shares of the provincial company, then repay the three million dollars to whomever they got it from for the week or two or however long it takes to effect the transfer.

It can be done, but it involves a lot of awkward procedure and some expense because they have to find this additional money and have it on deposit for the period until we can get the agreement executed and all the assets and liabilities of the provincial company transferred to the federal company. Further, there is an additional awkwardness in a trust company because in order to effect such a transfer you have to go to each province in which the company does business, and get legislation in the province substituting the new corporation for the provincial corporation as a trustee because it is not within the competence of the federal legislation to transfer trustees from one corporation to another; so you have to get special legislation within the province.

The whole procedure becomes quite complex technically but it ends up in the same position. We have for some years been seeking a method that would transfer these companies from one jurisdiction to another and that will clearly establish their powers but will not involve this awkwardness of having to capitalize the federal company for a matter of a week or two or until you can take over all the assets and liabilities of the provincial company. So when the Bill to deal with the Excelsior Life came for consideration we studied this in some detail. The problem was quite acute there because it involved a transfer of a great many assets and mortgages and stocks and a transfer of the contracts, and we had extensive discussion with

their lawyers and with lawyers of the Department of Justice who advised the Department of Insurance about this procedure, and we satisfied ourselves that the concept of continuing the company under federal jurisdiction—making all the powers available to it and all the restrictions applicable to it under the federal legislation—would be satisfactory if the province passed complementary legislation and said: "All right, once this is adopted by Parliament, we step out", so that there is no confusion about two jurisdictions.

Ontario did pass complementary legislation for the two life insurance companies that have been before the House, the Excelsior and the Empire, and Saskatchewan passed complementary legislation to enable this procedure to be put before Parliament in this case. We have satisfied ourselves in the Department, in conjunction with our legal advisers, that this will give the company the same powers and leave it under the same restrictions as any other federal trust company, subject to these special provisions I have described. The Saskatchewan legislation makes clear that once this is adopted, Saskatchewan will repeal the special acts that incorporated this company. So I think there will be no confusion in the future and we will avoid the legal complications of capitalizing this company temporarily, entering into the agreements between the two corporations, getting the agreements approved and then having to seek provincial legislation in addition.

Mr. Ballard: I wonder, Mr. Humphrys, if you could tell me this. When this company applied to the Saskatchewan government for incorporation, they assumed certain obligations and restrictions in order to get this charter. In your opinion, will these obligations and restrictions that were given to the Saskatchewan Government apply *mutatis mutandis* to this incorporation?

• (11:30 a.m.)

Mr. Humphrys: No, Mr. Chairman, I do not think they will because if this Bill is granted, the company will have all the powers and be subject to all the restrictions of the federal Trust Companies Act, and Saskatchewan has already adopted legislation that repeals the special acts incorporating this company so that once this is adopted the Saskatchewan legislation will disappear and this company will be no more subject to the jurisdiction of Saskatchewan than any other federally

incorporated trust company. But if the provincial act gave this company broader powers than the federal act gives it those powers would disappear with the adoption of this act because the provincial legislation is repealed.

Mr. More (Regina City): A supplementary, Mr. Chairman. The Bill in this form is not a precedent, I take it from your earlier remarks.

Mr. Humphrys: Is not a precedent? No other bills in this form have been adopted. We are looking at this Bill in the hope that it will be accepted by Parliament as representing a simpler way of accomplishing the transfer of a provincial company to federal jurisdiction. I am satisfied that the procedure will be such that it will leave the company in exactly the same position as our traditional...

Mr. Ballard: Mr. Chairman, perhaps Mr. Humphrys would assure this Committee that his examination of this company and the tests to which he put it were just as severe and critical as those he would have applied to an entirely new incorporation.

Mr. Humphrys: Yes, Mr. Chairman, in every respect. The legislative procedure for accomplishing this transfer did not influence our examination of the company or our attitude toward its financial position, powers and method of doing business.

Mr. Noël: Would you repeat in which province this company does business?

Mr. Wagner: Saskatchewan.

Mr. Noël: You will not be limited to Saskatchewan. You want to enlarge...

Mr. Wagner: Yes.

Mr. Noël: ...and spread over other provinces. I now want to ask about the number of shares the administrators will have to own in order to qualify as directors of the new trust company. Is there any limitation in the by-laws or do you intend to put a limitation on the number of shares a person can own?

Mr. Wagner: We follow the Trust Companies Act for the requirements of qualifying directors.

Mr. Noël: Is there a limit to the quantity?

Mr. Humphrys: Fifty shares.

Mr. Noël: The maximum?

Mr. Wagner: Is there a maximum?

Mr. Noël: Is there a maximum?

Mr. Wagner: No.

Mr. Noël: That is what I am driving at. If there is no maximum, a person has been chosen by one of your elections...

Mr. Humphrys: Mr. Chairman, this bill enables individuals to hold shares in order to qualify as directors, but it is not more than enough to...

Mr. Noël: I want a specific number.

Mr. Humphrys: It is fixed in the federal Trust Companies Act. It says that no shareholder is eligible for election unless he holds shares of capital stock on which at least \$500 has been paid. These shares are issued at a par value of \$10, so he would have to own 50 shares.

The Chairman: I think the answer to Mr. Noël's very interesting point is also provided by reading that section together with section 7(b), which says that the individuals who have been elected as directors shall in no case be entitled to hold more than the number you just mentioned.

Mr. Noël: I have another question. This is the French wording of the bill, "et le fait de détenir ces actions". The fact that an administrator holds shares does not give him anything but the privilege and benefit of being a director. What is meant by "benefit of being a director"? Is it just the fact that they can draw a salary? Is there a dividend on that? There is no dividend?

Mr. Wagner: Their shares...

Mr. Noël: They own \$500 each. That is the minimum and maximum, right?

Mr. Wagner: Right.

Mr. Noël: They have to hold that. Are they going to draw something from that investment? It is not really an investment, it is just the right to be elected a director?

Mr. Wagner: That is right.

Mr. Noël: They will be paid a salary, of course, or a fee—*jeton de présence*—a director's fee.

Mr. Wagner: At the present time my directors receive a *per diem* allowance.

Mr. Noël: A per diem allowance?

Mr. Wagner: Yes.

Mr. Noël: Those shares will not produce any dividends, according to the way I read the law. It says they have to qualify as a director and the holding of such shares shall not entitle a director to any privilege or benefit other than that of being a director. To my mind that is quite vague, the privilege of being a director. You do not have an awful lot of privileges, as a director unless you specify or limit them. Being a director of a company means that all the directors get together and vote themselves a big salary. They have the right to do this unless it is specified in the by-laws that the salaries are fixed by the shareholders. The shareholders in this company are the credit unions and the co-operatives. When they have a meeting are they going to have a meeting of all the members of the credit unions together with the members of the associations and co-operatives? That is what I am trying to find out. If it is just family business among a group of directors who have been elected by their association, co-operative or credit union there will be remote control there and I can see some danger in that.

Mr. Wagner: I think I can assure you, sir, that there is no worry whatsoever of a family compact.

Mr. Noël: Up to now, maybe not.

Mr. Wagner: And I do not think at any time in the future because, as you know, the directors are elected every year and if they make the mistake of giving themselves too large a salary they certainly will not be re-elected. Every member association is entitled to a delegate and he has one vote, which means that the largest shareholder, who may possibly have \$100,000 in shares, and our smallest shareholder, who may have \$50 worth, have exactly the same say.

Mr. Noël: It is a vote by each person?

Mr. Wagner: This is one company in which there is absolutely no possibility of a family compact. Is this clear?

Mr. Noël: My first question was whether you want to do business in other provinces. While you are among your own people in Saskatchewan everything is known about the business but if you extend your business to Nova Scotia or New Brunswick, unless there

is a little more specific detail on what the benefits to a shareholder will be or the benefits are limited within the law, there might be a danger.

• (11:40 a.m.)

Mr. Humphrys: Mr. Chairman, I think the effect of this is to prevent the directors from voting the shares they own at an annual meeting. It is intended to mean that the right of an individual to own shares is for the purpose of enabling him to qualify as a director, pursuant to the requirements set out in the Trust Companies Act. I think that in so far as the company is concerned they put this in because the general act requires that a director of a trust company must own some shares. However, they want to make it clear that they do not want this ownership of shares by an individual to interfere with the principle to which they are trying to adhere, that only their shareholding organizations will vote at the annual meetings. Therefore they want to maintain the position that these trust companies are really under the control of the delegates which are sent by the member shareholders, and even though individual directors have 50 shares each they cannot vote at the annual meetings. This limits their power. They could not really maintain themselves in office because when they go to the meeting to elect directors they cannot vote for directors, only the organizations can vote.

With respect to the privilege of being a director, I do not think they would be in any different position from the directors of any other trust company. In so far as the directors are concerned, they have power to pass by-laws, establish rules and manage the business of the company and they can fix the salaries and terms of employment. Directors' fees would come up for examination at the annual meeting, so I think the chance of individuals using their position as shareholders to their own benefit in this respect is not very great.

Mr. Noël: I just want to ask you one more question. Is the ownership of those \$500 shares vested in the director?

Mr. Wagner: Yes.

Mr. Noël: Now suppose that one dies, is there some provisions which obliges the director to transfer that share back to some other delegate of the co-operative? And suppose that the widow wants to hang on to the

shares of her husband who was an administrator or a director of that company, would they have to transfer those shares to some delegate of the union, the association or the co-operative? Are you aware of such a provision and, if so, is it in the by-laws?

Mr. Wagner: Section 9 states the Company may buy from the holder or holders thereof.

Mr. Noël: It says "may" buy.

Mr. Wagner: This is the only market for the shares and the Company controls the transfer of shares also.

Mr. Noël: Of course the widow has no interest at all because it does not bring her any revenue. But suppose she wants to hang on to it as a souvenir? One has to look at every situation.

Mr. Wagner: That is right.

Mr. Noël: I think there should be some provision somewhere, in the credit union or the co-operative, that a person must sign a paper in advance authorizing that his share be sold back to the credit union of which he is a delegate. There should be some sort of provision.

The Chairman: I presume that Mr. Noël is suggesting that a "buy-sell" agreement be entered into between the company and the director at the time of assuming office.

Mr. Wagner: I would think, subject to Mr. Humphry's comment, that this is a good suggestion.

Mr. Noël: I presume that anything that is done will be done in good faith, but we must take all precautions.

Mr. Wagner: You would agree that it could be done by by-law?

Mr. Noël: It could be done either by by-law or a "buy-sell" agreement.

Mr. Lambert: I disagree violently. I think that this procedure is in complete violation of the Trust Companies Act. I do not have the Trust Companies Act here but I remember that last year we had a similar problem and I still advocated against it with regard to a Nova Scotian co-operative mortgage company.

The Chairman: You are referring to?

Mr. Lambert: In my book, the Trust Companies Act laid down absolutely clearly that shareholdings for directors must be complete-

ly and utterly owned, absolute beneficial interest, and that that admits of no derogation. Now a "buy-sell" or a trust agreement in behind is a derogation of ownership in the same way as is limitation on dividends. Beneficial ownership in law means beneficial ownership and nothing else. If I may say so, I am amazed at this form of incorporation.

Now I think Mr. Humphrys will remember that when we were amending the Trust Companies Act I suggested—certainly I did under the Dominion Corporations Act—that if you want this sort of thing you should appoint directors without shareholdings. Is this permitted? I believe it was permitted under the Alberta Companies Act in the Delaware Provision. This gets away from this nonsense. Gentlemen, you have a class of shares here which you are actually dividing into two classes without saying so, and I suggest this is wrong in law with all due deference to counsel; and if you want directors' shares, qualifying shares, there should be a class "A" of shares and then we know what they are. They are not entitled to dividends, they may not be sold to others, but they are qualifying shares. And the Trust Companies Act does not determine what shall be the qualifying shares. Then you have your shareholdings on behalf of the members, where they have full beneficial ownership. I suggest that as a result of what you are proposing here you are getting yourselves into a real rats' nest of difficulties.

I carry on with what was suggested by Mr. Noël and by Mr. Ballard and suggest to you that there is a serious potential of conflict of interests in so far as this type of shareholding is concerned. But the director is a nominee of a co-operative. The Trust Companies Act prohibits him from making a loan to himself or voting on a loan to himself as director, but there is nothing in the Trust Companies Act that prohibits this trust company from making a loan to a trust company of whom he is nominee. I believe I am right.

Mr. Wagner: Well, with one minor exception in the beginning. The member sends a delegate to the annual meeting.

Mr. Lambert: Yes, I know, but I am talking about the administration. Now let us face it, these directors will be the nominees of influential members in the co-operative movement—that is, the organizations—so to all intents and purposes they are the nominees of a member. The Trust Companies

Act does not prohibit a loan back to the one to whom this chap is beholden. This is where I suggest to you that there is a potential conflict of interests. He himself is not a member, he cannot make a loan to himself, and the Trust Companies Act quite rightly prohibits it. But as you said, he is either a delegate or a nominee beholden to his nominator and I find it a little difficult to understand how this type of incorporation will give you the protection of the Trust Companies Act that we ask for, shall we say, private non-co-operative operations.

• (11:50 a.m.)

Mr. Humphrys: Mr. Chairman, the persons who may be elected as directors at the annual meeting of shareholders would not, I suggest, be any more the delegate of influential shareholders than is the case at any other corporation where a person could be elected a director, must be clearly be acceptable and, if you like, the nominee of the major shareholders. Now in this case we are dealing with the situation that the shareholders have one vote each regardless of the size of their shareholdings. The persons who are nominated as directors on election will be able to acquire shares to permit them to qualify. But this permits the election of persons as directors who may not be the same as persons who are representing the shareholders at an annual meeting. In the usual case the shareholding organization would send one of its officers, perhaps its president or its secretary, as its representative to the meeting to vote on its behalf but it would not necessarily want that officer to be a director of the trust company. This permits the shareholders in their meeting to elect persons who may also be representatives of the shareholders, or who may perhaps be other persons, as directors of the trust company.

The question of the share ownership by the individual is, I admit, in this case a question rather of form than of substance, because under the Trust Companies Act there must be some proportion per share in order to qualify. This provision is put in to be compatible with that requirement; but it does not, I believe, create a conflict of interest perhaps even of the same degree that we would be concerned with in a company where the influence was proportional to the share ownership.

Furthermore, these persons in the co-operative movement have no personal financial

interest in the ownership of a member institution because each of the member institutions being a co-operative, is not a private concern to the extent of an ordinary corporation; so that I think there is a lesser degree of personal conflict of interests.

The problem in the co-operative movement that we have been concerned about over the years—and I think perhaps it has been discussed by this Committee in past years—is the closely-knit organization of the co-operative movement and the lending of money from one organization to another which may, in some circumstances, be influenced by the co-operative sentiment rather than by a hard headed estimate of the ability of the borrower to repay. This has been a matter that we have watched for a long time, and about which we have done our best to persuade the co-operative movement to be careful.

I am satisfied that this company has conducted its affairs in such a way that it has been free from loans of that type.

The comment on the beneficial ownership, and whether an agreement to sell shares to a particular buyer in certain circumstances is a diminution of the complete beneficial interest, I do not have the legal qualifications to enter into a discussion on that. I do know that this type of arrangement is not uncommon. We in the Department have not challenged it as being a violation of this requirement, but we have thought that it should be limited to an undertaking to offer the shares for purchase when they are sold. But while they are held, and until they are offered for sale, the ownership, so long as it is complete, we thought was in compliance with the legislation.

In view of the comments that Mr. Lambert has made, I will certainly raise the point with our legal advisors in the Department of Justice to see whether this arrangement has violated the requirements of the statute; and, if so, I think that either the statute should be changed, perhaps along the lines that you suggest, or we will have to see that these buy-sell arrangements are terminated. As a practical matter, of course, it is not always possible to flush them out, as they may exist without being exposed, and this is one of the reasons that we have been somewhat influenced not to press the point too severely so long as we feel that the ownership is complete while the individual is acting as a director.

• (12 noon)

Mr. Lambert: Mr. Chairman, I am not so much concerned with the type of buy-sell agreement that is at arms-length and is established on the standard form of buy-sell agreement, where, on the basis of an annual valuation of the shares, there is an agreement to sell and an agreement to purchase as between the major shareholders, for instance. This is a protection against the Estate Tax Act in all sorts of ways, and it is just common-sense protection, providing it is backed up with the necessary liquid assets.

What I am concerned about is this drawing that is on this type of shareholding. Now I know that in another context, under the Aeronautics Act, where the ownership of certain airplanes here in Canada has to be in the hands of a company where the directors are two-thirds in number Canadian, you get solicitors and other incorporators of these companies holding the necessary shares to qualify them as directors, and then, behind that, there is a trust agreement on behalf of the foreign beneficial owner. This is what I am after. This is the reason for my saying that I think this type of incorporation is a violation of the spirit of the Trust Companies Act; because unless you want to modify the Trust Companies Act, to get away from what is meant by beneficial ownership—the ownership of shares—and I think that the Trust Companies Act says that it has to be a clear ownership—then, with the greatest respect to all concerned, this is not clear ownership of those shares.

Mr. Humphrys: The Trust Companies Act says that unless he holds, in his own name and for his own use, shares of the capital stock...

Mr. Lambert: There you are.

The Chairman: Mr. Macdonald, you are next, followed by Mr. Laflamme.

Mr. Macdonald (Rosedale): There are some very serious points here. I presume, Mr. Humphrys, since you are going to be consulting the Department of Justice on this, you would agree also with the proposition that a more particular piece of legislation, such as this Bill, can in effect amend the Trust Companies Act if that is the intention to do so? In other words, Parliament has not bound itself not to amend, in a particular case, that general provision about beneficial ownership. It seems to me that if that is the

intention then this Bill should say so; and that clause 7(b) should therefore say that, notwithstanding the provisions of whatever the appropriate section of the Trust Companies Act is; these individual directors do not need to be beneficial owners.

Now there are three basic rights to a shareholder and I am directing my arguments here to the final clause of 7(b). The basic rights are at least to share pro-rata in the assets of the company on winding up—and presumably you do not want these individuals to have that right; to share his dividends as declared from time to time—and equally you do not want them to have that right; and certainly to vote at general meetings of the company.

Until Mr. Noel started to ask his questions I had assumed that both the 7(a) and the 7(b) shareholders would have the right, under clause 8, to vote. Therefore, may I suggest, as a further change, that clause 8 should read that each shareholder referred to in clause 7 (a), as in 7(b), is not to have the right to vote. Let us take that away from them expressly rather than leaving it in any doubt for the future.

There are other questions that come to mind. Under paragraph 9 what about the case of redemption of shares? I am not sure what the share privilege provisions would be. Let us assume that a constituent co-operative wanted to withdraw at a later date from support of the trust company. I presume that the constituent co-operative would regard itself as having the right not only to withdraw its investment but also such accretions to that investment as may have occurred during the period of share ownership.

I presume that equally the intention would be that an individual, when he ceases to be representative, and a 7(b) shareholder, would not have that right. I wonder if that should not equally be made clearer?

Mr. More (Regina City): I want to ask a supplementary question. Mr. Noel mentioned what happens in the case of death. What happens in a case where a director is not re-elected? What happens to his shares? Does the corporation automatically redeem them?

Mr. Wagner: I would say, yes.

Mr. More (Regina City): There is no provision for that. On what basis would it redeem them—what he paid for them? There is no provision for that in the Bill, that I can see.

Mr. Humphrys: It would have to be dealt with in a buy-sell agreement between the corporation and the individual where the Corporation would undertake to repurchase the shares on termination of the directorship.

Mr. More (Regina City): But the way this is drafted each person could be left with one share.

Mr. Humphrys: There is no requirement in the Act that the shares...

Mr. McLean (Charlotte): What shares are redeemed? Are they redeemed both in capital and surplus?

Mr. Martin: The par value is all that would be redeemed in that.

Mr. McLean (Charlotte): Do you have any surplus?

Mr. Martin: We have a surplus accumulated in the form of reserves.

Mr. McLean (Charlotte): And the shareholders do not get back any of the surplus, they just get back the capital.

Mr. Macdonald (Rosedale): I am not sure that is clear from Clause 9.

Mr. Humphrys: It gives the Company the power to buy the shares back but it does not restrict the Company with respect to the price paid.

Mr. Macdonald (Rosedale): Could I address this question to Mr. Wagner. Let us say that the Nova Scotia co-operatives get in here and carry on for five years. They then say, "On the whole we would like to have our own Nova Scotia Co-operative Trust Company and we want to withdraw". Is it the intention at that point to let them withdraw with the capital they invested plus accretions, or are they to get out with their original investment only?

Mr. Wagner: The practice has been just to take out what you put in.

Mr. Macdonald (Rosedale): Take out what you put in?

Mr. Martin: That is right.

Mr. Macdonald (Rosedale): And if the over-all business of the trust company grows, then anybody who drops out would have to write off the gains which result from their co-operation?

Mr. Martin: That is true.

Mr. Laflamme: I would like to ask Mr. Humphrys with respect to subclause (a) of Clause 7 if there is any limitation in the appropriation of shares by any companies, societies, associations or corporations wishing to buy shares?

Mr. Humphrys: There is no limitation on the number of shares an organization can purchase.

Mr. Laflamme: Then one or two companies can completely control a trust company?

Mr. Humphrys: No. No matter how many shares they own they only have one vote.

Mr. Laflamme: They only have one vote but indirectly the directors on the board may obtain private shares.

Mr. Humphrys: When the directors are elected at the meeting each organization has only one vote however many shares it may own, so it could not exercise any more influence than an organization that only owned one share.

The Chairman: Perhaps it might be useful at this point if we asked the witnesses to give us some details about the assets, the liabilities and the general financial position of this company. We have not had this information as yet.

Mr. McLean (Charlotte): As a supplementary question, could an organization vote for more than one director? Is their vote confined to one director?

Mr. Humphrys: No. The voting would be handled as it is usually done in corporations, you would cast a vote for each vacancy.

Mr. McLean (Charlotte): Then one institution could control it, could they not?

Mr. Humphrys: No.

Mr. McLean (Charlotte): Then they would only have one director.

Mr. Humphrys: No. If there are 300 shareholders and they all attend the meeting there are 300 votes to be cast. There may be several thousand shares and in the election each representative votes on each vacancy. There are 300 votes cast on each vacancy. One organization would not have any more influence than another.

Mr. Lambert: Surely you will agree that in every flock there are both rams and sheep.

Mr. Humphrys: If there is one vote per shareholder I think the chance of any one shareholder dominating the meeting is much less than if you have one vote per share. I think this is the basis of the philosophy of the co-operative movement.

Mr. Ballard: I would like to ask Mr. Humphrys if, as an officer of his Department, he was satisfied with the by-laws of the Company as they were filed with him. Would he also tell us why these by-laws were not made available for scrutiny by us at this time.

Mr. Humphrys: The by-laws of the Company would have to be modified because they will not be in compliance with the federal Act when it comes into force. Consequently the by-laws of the existing Company are not quite in the form which they will have to adopt under the new Act. However, I know of no reason why the by-laws of the Company should not be made available, if that is the desire of the Committee.

Mr. Ballard: But in view of the fact that the word "by-laws" is mentioned in clause 8 of the bill you are satisfied that the by-laws as presently framed covering voting procedure are satisfactory.

Mr. Humphrys: The voting procedure will be limited by the requirements of this Act, and we are now discussing with the Company the by-law amendments that must be made if this Bill is adopted in order that the by-laws conform with this Bill and the federal Act.

Mr. Ballard: Mr. Chairman, I am still not happy with this Bill. I think as a Committee it is our job to protect federal legislation. I do not think we should be satisfied with the statement that it was easier for the incorporators to follow this route than to follow the normal route. I think it goes against the grain of this Committee to set a precedent—which this undoubtedly is—which would make it easier for companies to circumvent the provisions of the Trust Companies Act when making a normal incorporation. There are too many uncertainties in this Bill and too many things have been mentioned by several members of this Committee for me to have confidence in endorsing the passage of this Bill. I think if an application for incorporation were carried out in the normal way

it would have given us the answers to all the questions that have been asked this morning. That is all I have to say.

Mr. Macdonald (Rosedale): Mr. Chairman, I am not altogether certain that even if we had proceeded in that way we would get around the problem of these two types of shareholders, and in particular the provision of the Trust Companies Act that there should be beneficial ownership in an individual. Could I suggest that we strike out subclause (b) of Clause 7 and at the end of Clause 3 add, "Notwithstanding the provisions of the Trust Companies Act with respect to beneficial ownership, the representatives of the shareholders of this Company need not own shares beneficially". In other words, do what we are really trying to do by Clause 7 (b), if we decide that it is purely artificial. As Mr. Lambert said, this was decided long ago under The Corporations Law of the State of Delaware. I think this anachronism of requiring a director to hold shares should not be continued. Why do we not do that and make this a special case outside the Trust Companies Act, because that is basically what you are asking for.

• (12:10 p.m.)

The Chairman: It is true that in a particular bill Parliament can say that any of its previously existing legislation shall not apply in whole or in part to a particular situation. As far as I am aware it is entirely within Parliament's power to make such provisions in either a special act or in an act of more general application. However, I think some points have been raised by members of the Committee which the Committee may wish to take into account. I think we might wish to consider whether or not the aims of those who support this Bill are actually being carried out by the draft that we are studying at this time.

Mr. Lambert: Mr. Chairman, may I make one comment. I am not trying to torpedo this Company or the efforts made by the proposers, but as a lawyer I believe this type of thing is bound to get you into trouble. I have raised some questions. Mr. Humphrys, by his reference to the law officers of the Crown, may be able to satisfy me that possibly I put too wide an interpretation on this or that I have been too difficult about it. Mr. Noël raised some questions, too, that we would like to be satisfied about. If the answer is going to be "yes", fine; but I think we would

be doing the proposers of this Bill a disservice if we did a sloppy job and gave them the assurance: "Well, yes, that is all right" and subsequently they faced a law suit through the action of dissident shareholders.

Mr. Macdonald raised a point there about shareholders wishing to withdraw and saying they are only entitled, shall we say, to the capital value of the share without taking into account any accretions. Does that mean, then, that on the possible dissolution of this company, shareholders of record will be the only ones entitled to pick up the surplus? This is another point that has to be spelled out which is not spelled out.

I am also not too sure that the Trust Companies Act allows a trust company to enter into a buy-sell agreement with any of its shareholders, or any of its directors. Therefore I would propose, Mr. Chairman, that we adjourn until we get the answers.

Mr. Laflamme: May I make a suggestion? Perhaps we should ask the proposers to redraft clause 7 in such a way that it will clarify the question of control, the question of the powers of the directors, and the appropriation of shares.

The Chairman: It would appear that the aim of those in the Committee who are bringing these points forward is to ensure that the co-operative bodies who are supporting this trust company are fully protected and that this is reflected in the legislation. I think the aim of those in the Committee who have raised these points is to be helpful, particularly as this does not represent what you might call a private business investment in the ordinary sense. It may be, gentleman, that in consultation with Mr. Humphrys or yourselves you could come up with some changes in the wording to reflect these comments that have been made, and perhaps we could reconvene early this week. Perhaps you could stay over for a day or so.

As I say, this would be important in any event, but it is especially important where we in effect are trying to protect the interests of tens of thousands of individual credit union participants. I am not saying this has not been done so far, but I think these points should be taken into account for the protection of all concerned. I think the view of the Committee is that we should adjourn and reconvene at the call of the Chair.

Mr. Ballard: Mr. Chairman, probably I have been a bit too critical of this piece of legislation, but I want to assure Mr. Wagner and Mr. Martin that I am in no way against the incorporation of a trust company by their organization. I have no quarrel with your aims and aspirations, but I do feel that our Department has not given you the best road to follow to achieve the goals and aspirations that you are looking for. When I am being critical, I am being critical of our own Department rather than the co-operative group that you represent.

The Chairman: Should we consider at this time when we might reconvene? I might just make a comment that has occurred to me. I think we should distinguish between two separate but possibly related aspects. One is the advisability of a procedure which is reflected by this Bill of making it easier for companies to come under federal jurisdiction, and the other is to see that in a particular case, particularly of all the co-operatives and credit unions and so on, that the special provisions—taking this situation into account—are actually completely expressed in the Bill.

Mr. Humphrys may have some submissions to make concerning the advisability of providing a new procedure generally to make it easier for trust companies, insurance companies and so on to come under federal jurisdiction which is a separate matter and which I do not think we should reflect upon completely at this time, because this is not the broad issue before us.

It seems to me that what we are really concerned with at this time is to ensure, for the benefit of those who have sent Mr. Wagner and Mr. Martin here, that the Bill that we do recommend to Parliament actually sets forth the scheme that will carry out the intentions of the thousands of participants in the credit union movement who are, in effect, owners of this company. I think that we should adjourn and reconvene at the call of the Chair to consider further this piece of legislation.

Thursday, November 23, 1967.

● (11:10 a.m.)

The Chairman: Gentlemen, I think we are in a position to begin our meeting on an unofficial basis for the moment with the usual reservations.

When we adjourned on Tuesday it was understood that the witnesses who were here on behalf of the Bill and the Superintendent of Insurance were to consult with a view to preparing amendments to take into account some of the points raised by various members of the Committee relative to what appeared to be situations not taken into account in the draft Bill with respect to the position of directors and, obviously, some work has been done over the last couple of days.

Some draft amendments have been prepared which I have caused to have distributed, at the moment purely for the purpose of, shall I say, preliminary discussion before I ask whether someone on the Committee is prepared to move them. In fact, I cannot do it yet anyway because we are actually on the preamble. Perhaps I should ask Mr. Humphrys and the witnesses to explain what is intended by these amendments. Before you start I would like to note for the record we are now in a position to begin officially.

Mr. R. Humphrys (Superintendent, Department of Insurance): Mr. Chairman and hon. members, the amendments that have been distributed would add two subclauses to clause 3 of the Bill. Clause 3 in its present form states that:

3. The directors of the Company holding office as at the date on which this Act comes into force shall continue in office until the first annual meeting of the Company following the said date and, if otherwise qualified, shall be eligible for re-election.

The proposed amendment is to add a subclause (2) to provide that any individual who is a member of an organization that is a shareholder is eligible to be elected as a director and if any director ceases to be eligible for election he thereupon ceases to be a director. This would then state the class of persons from whom the directors could be drawn and these would all be individuals who are members of co-operative organizations that in turn own shares in the trust company.

In order to remove any possible conflict with the requirements of the Trust Companies Act which says that no person is eligible to be a director unless he owns certain shares, it is proposed to add subclause (3) to provide that notwithstanding Section 18 of the Trust Companies Act an individual need

not be a shareholder to be eligible for election as, or to be a director.

These proposals go more directly to the point that was discussed yesterday and it was recognized that the requirement for individuals to own shares, as it appeared in the Bill, was really to bring the requirement into conformity with the Trust Companies Act but it is undoubtedly a simpler procedure to satisfy that particular requirement in the Trust Companies Act for this particular case and I think it is justified because in these co-operative organizations share ownership by the individuals would not constitute a measure of personal financial interest in the same sense that is intended under the Trust Companies Act by this share qualification procedure.

● (11:20 a.m.)

The company in its present form has this same qualification for directors. Any individual who is a member of a co-operative organization owning shares in a trust company is eligible. So in discussions with the officers of the company this met their desire and from the point of view of the Department of Insurance we believe it is an appropriate qualification for directors for a company such as this.

The amendments then would go on to delete paragraph (b) in the present clause 7 which was the paragraph that was brought into question yesterday because it set up a special class of shareholders.

The other amendment would be to clause 9 where there a question was asked about the price the company would pay if it purchased shares from a shareholder, and it is proposed that certain words be added to the end of that clause to make it clear that any purchase of shares by the company will be at par value.

The Chairman: Do members of the Committee have any questions or points to raise by way of general discussion at this stage? We are not really moving the amendments; is there any further general discussion at this time? Mr. Lind?

Mr. Lind: I am sorry I missed the last meeting. I would appreciate, Mr. Chairman, if I could ask the representatives of the Co-operative Trust Company Limited a couple of questions just for background information.

First of all, Mr. Humphrys, you said that each shareholder would relinquish his shares

at par. Who buys them up; the new Trust Company, or not?

Mr. Humphrys: The shareholders of this company would be in the same position as shareholders of other companies in that if they want to dispose of their shares they have to find someone who will buy them. But the classes of organizations that can buy shares are limited under this Bill and it is provided that only co-operative organizations can become shareholders.

Because of the restriction in the ownership of shares, the company seeks the power to purchase its own shares from shareholders at par value but only to the extent that a corresponding number of shares are issued in the same year so that power the company is seeking to buy its own shares is really only to provide an exchange, you might say, of shares within the year.

If a co-operative organization goes out of business or wants to sell its shares and cannot find another buyer the company could buy those shares if it re-issues an equal number to some other co-operative. Other than that a co-operative organization that owns shares in this trust company is in the same position as any other shareholder. You cannot expect the issuing company to buy back those shares.

Mr. Lind: Through you, Mr. Chairman, to a legal counsel, I gather that the shares of this Co-operative Trust Company Limited are mostly held by other co-operatives rather than individuals?

Mr. H. A. Wagner (General Manager, Co-operative Trust Company Limited): No shares are held by individuals. They are all held by credit unions, co-operatives and similar organizations.

Mr. Lind: Under the taxing agreement where does this fall on the profits this company makes? Do they make any profit or do they pass it on to the co-operative associations?

Mr. Wagner: We certainly make every attempt we possibly can to have an earning and we pay exactly the same income tax on that earning as any other company in Canada.

Mr. Lind: If it is over \$35,000 a year, you pay 52 or 50 per cent or whatever it is?

Mr. Wagner: Yes, that is correct; 51 per cent.

The Chairman: The trust company itself is not a co-operative in spite of its ownership.

Mr. Wagner: Its a stock company.

Mr. Lind: Its a stock company itself. Oh yes, now I get it.

The Chairman: I think I can see your point.

Mr. Lind: Thank you very much, Mr. Chairman.

The Chairman: Do members of the Committee have any further questions? I think before we proceed to voting on the clauses I should ask the witnesses to place on the record some information about the financial status of the existing company which is to be continued on a federal basis. I believe that you had the information available on Tuesday; something about your assets and liabilities and profitability or otherwise in the last several years.

Mr. Humphrys: Mr. Chairman, I believe Mr. Martin has a financial statement as of October 31 and he would be able to give a summary of the assets and liabilities of the company or perhaps table the balance sheet for inclusion in the Proceedings if you wish.

The Chairman: Perhaps it can be tabled. Perhaps he can just give some highlights from it and we will have this for the record.

Mr. Al Martin (Secretary-Treasurer, Co-operative Trust Company Limited): Mr. Chairman, the capital section of our balance sheet which is the company fund has assets of just over \$2 million as of October 31, 1967. This is made up of the shareholders equity and earnings to date. The asset form of these holdings is in the term of short-term deposits and bonds and debentures of the federal and other governments and municipal governments.

In the guaranteed trust section our total assets exceed \$29 million and the liabilities here are made up of short-term deposits by individuals and organizations into the company along with the usual type of guaranteed investment certificates issued by trust companies. The assets are in the form of short-term deposits and bonds and debentures with government, municipalities and some co-operatives.

The largest portion of the assets of the guaranteed trust section is in the form of mortgage loans to individuals who are members of member organizations. The other

trust sections at the present time exceed \$7 million and this is made up chiefly of assets of estates under administration in the amount of \$5.4 million at October 31.

The Chairman: Perhaps somebody can move that this balance sheet should be...

Mr. Lind: May I ask a question?

The Chairman: Yes.

Mr. Lind: On the breakdown of your capital how much of that is capital invested by the co-operatives and how much of it is surplus?

Mr. Martin: There is \$1,584,830 of invested capital out of the \$2.1 million and in reserves we have \$180,000. Included in that figure is \$171,000 of earnings to date that have not been distributed.

Mr. Lind: Thank you very much.

The Chairman: You mentioned mortgage loans. At what rate of interest are you making these loans at the present?

Mr. Martin: Our rate of interest on mortgage loans to individuals at the present time is $8\frac{1}{2}$ per cent. We have only one interest rate for loans being made at a specific time, but our past interest rate has been 7, $7\frac{1}{2}$, 8 and $8\frac{1}{2}$ per cent now.

The Chairman: When did it move to $8\frac{1}{2}$ per cent?

Mr. Martin: About two months ago.

Mr. Wagner: I should explain, Mr. Chairman, that $8\frac{1}{2}$ percent rate includes insurance on the life of the borrower up to a maximum of \$20,000 at no other cost to him than the $8\frac{1}{2}$ per cent.

The Chairman: Do I understand that you only make loans to individuals and not to limited companies?

Mr. Wagner: We only make loans to individuals.

The Chairman: Do they have to be members of the co-operative body?

Mr. Wagner: Yes; they have to be a member of a member.

The Chairman: Another point that intrigued me when you made your initial presentation was your mention that one of your services that was quite active was a

will-drawing service. How do you make that service meet the requirements of the various professional or governing bodies of the legal profession in the provinces in which you operate? I am not reflecting on the practice. I am just wondering.

• (11:30 a.m.)

Mr. Wagner: We have not had any difficulty. I am not sure that I understand.

The Chairman: Well do you use solicitors to draw these wills, or is it done by your trust officers?

Mr. Wagner: It is done in both ways. It is generally up to the person who wants the will. We offer the service; if he wishes to use a lawyer in assisting in the will preparation, or if he wants to name a lawyer he wants to use in the administration of his estate, this is perfectly all right with us.

The Chairman: A few months ago, this Committee recommended to Parliament the approval of a bill that was set up, which I believe was called League Savings and Loan; is that right, Mr. Humphrys?

Mr. Humphrys: Yes.

The Chairman: Which, I believe, was to be owned by the co-operative movement, at least initially, in Nova Scotia. I recall that on Tuesday you said you had some inquiries from Nova Scotia. How would your proposed operations fit in with the operations of League Savings and Loan?

Mr. Wagner: Mr. Chairman, I should have explained that it is the policy of our board of directors not to move anywhere unless we are invited so to do by the co-operative organizations. If Nova Scotia felt that they would not like us to move in there with our mortgage service, then we certainly would not do it.

The Chairman: In other words, it is unlikely there would be a situation where a trust company owned by one group of co-operatives would be in competition on a business basis with a trust company owned by another group of co-operatives?

Mr. Wagner: It could happen, but it is not likely, Mr. Chairman.

Mr. Humphrys: Is I may comment, Mr. Chairman, The League Savings and Loan was incorporated as a loan company under the federal Loan Companies Act, and it has

the power to accept deposits, sell debentures, and make mortgage loans, but it does not have the power to provide the services of a trust company, the service of estate administration and this type of service.

The Chairman: Now, one final question, which I do not think has been put on the record yet. Could you tell us exactly who the co-operative bodies are that own the existing company?

Mr. Wagner: They were listed in the Senate Report of the proceedings, Mr. Chairman.

The Chairman: We do not recognize things from the Senate in the ordinary sense, you know.

Mr. Martin: Well, we can name most of them from memory.

The Chairman: Yes.

Mr. Martin: There are about 265 credit unions in the province that hold shares in our company, out of the 300 existing credit unions in Saskatchewan. There are about...

The Chairman: You do not have to name all 200.

Mr. Martin: No, I do not think I could. There are about 30 local co-operative organizations in the province holding shares in the company; these are mostly consumer co-operatives. The balance would be the central co-operative organizations, including Saskatchewan Wheat Pool, Federated Co-operatives Limited, Interprovincial Co-operatives Limited—you have them there do you?

Mr. Nasserden: There is Saskatchewan Wheat Pool, Saskatchewan Co-operative Credit Society, Co-operative Creameries, Interprovincial Co-operatives, Federated Co-operatives, Credit Union Mutual Aid Board, The Credit Union League of Saskatchewan, Co-operative Life, Co-operative Hail Insurance, and Co-operative Fire and Casualty.

The Chairman: Well, thank you, Mr. Nasserden. If there is no further discussion we can proceed to voting.

Preamble carried.

Clauses 1 and 2 carried.

On clause 3—*Directors*

Mr. More (Regina City): I move to renumber present clause 3 as sub-clause (1) of clause 3 and add the following:

(2) Any individual who is a member of an organization that is a shareholder is eligible to be elected as a director and if any director ceases to be eligible for election he thereupon ceases to be a director.

(3) Notwithstanding Section 18 of the Trust Companies Act an individual need not be a shareholder to be eligible for election as, or to be a director.

Mr. Wahn: I second the motion.

Amendment carried.

Clause 3 as amended carried.

Clauses 4, 5, and 6 carried.

On clause 7—*Shareholders*

Mr. Monteith: I move in clause 7, delete the letter (a) in line 19 and delete paragraph (b)

Mr. More (Regina City): I second the motion.

Amendment agreed to.

Clause 7 as amended carried.

Clause 8 carried.

On clause 9—*Purchase of shares by the Company*

Mr. More (Regina City): I move to amend clause 9 by adding the following immediately after the word "made" in line 44:

"and any such purchase of shares shall be at the par value thereof."

Mr. Monteith: I second the motion.

Amendment carried.

Clause 9 as amended carried.

Title carried.

The Chairman: Shall I report the bill as amended?

Some hon. Members: Agreed.

The Chairman: Gentlemen, this completes our agenda for today. I declare the meeting adjourned.

I think I can say in passing that we hope these amendments will help the group sponsoring this bill to better achieve their aim.

APPENDIX F

CO-OPERATIVE TRUST COMPANY LIMITED

Comparative Consolidated Statement of Operations For the 11 month period ended October 31, 1967

Head Office	This Month		Year to Date	
	Actual	Budget	Actual	Budget
Investments and Trusts.....	\$ (3,140)	\$ (9,171)	\$ 151,683	\$ 133,084
Mutual Benefit.....	684	(463)	(391)	(320)
Realty.....	1,861	2,190	18,841	21,907
	(595)	(7,444)	170,133	154,671
Less: Administrative Expense.....	(4,722)	(5,877)	152,635	150,606
Net Revenue.....	4,127	(1,567)	17,498	4,065
<i>Saskatoon Region</i>				
Estate Department.....	204	(541)	(429)	(4,711)
Loan Department.....	13,987	12,927	131,734	124,911
Property Management and Real Estate.....	682	903	15,881	13,501
Melfort Branch.....	(1,040)	(287)	(1,994)	(14)
	13,833	13,002	145,192	133,687
Less: Administrative Expenses.....	6,383	4,514	52,628	50,919
Net Revenue.....	7,450	8,488	92,564	82,768
<i>Regina Region</i>				
Estate Department.....	2,363	(154)	(5,384)	(7,970)
Loan Department.....	13,180	11,364	115,622	108,546
Property Management and Real Estate.....	—	(332)	—	(332)
Swift Current Branch.....	469	(169)	(7,206)	(8,506)
	16,012	10,709	103,032	91,738
Less: Administrative Expenses.....	4,815	3,476	42,087	39,176
Net Revenue.....	11,197	7,233	60,945	52,562
Net Savings for Period.....	22,774	14,154	171,007	139,395

CO-OPERATIVE TRUST COMPANY LIMITED

Consolidated Statement of Operations for the 11 month period ended October 31, 1967

	Actual	Budget	Increase (Decrease)
	\$	\$	\$
<i>Revenue</i>			
Net Income from—			
Guaranteed Funds.....	280,325.00	262,554.00	17,771.00
Family Farm Funds.....	102,223.00	96,243.00	5,980.00
Other Trust Funds.....	9,453.00	9,929.00	(476.00)
Capital Investments.....	58,262.00	58,041.00	221.00
Loan application fees.....	26,833.00	16,944.00	9,889.00
Commissions—			
Real Estate.....	32,879.00	30,056.00	2,823.00
Other.....	777.00	1,291.00	(514.00)
Estate Administration fees.....	92,451.00	80,912.00	11,539.00
Business Management fees.....	7,194.00	7,557.00	(363.00)
Property Management fees.....	4,773.00	4,920.00	(147.00)
Trusteeships.....	4,156.00	4,258.00	(102.00)
Realty.....	18,841.00	24,767.00	(5,926.00)
Loan Insurance Refund.....	40,408.00	40,411.00	(3.00)
Safety deposit Box rentals.....	101.00	100.00	1.00
Sundry.....	2,160.00	2,060.00	100.00
TOTAL REVENUE.....	680,836.00	640,043.00	40,793.00
Less: Operating Expenses.....	509,829.00	500,648.00	9,181.00
Net Savings for Period.....	171,007.00	139,395.00	31,612.00
Interest on—			
Loans.....	1,157,949.00	1,156,486.00	1,463.00
Other.....	602,850.00	519,852.00	82,998.00
	1,760,799.00	1,676,338.00	84,461.00
Less:			
Guaranteed Interest.....	1,310,536.00	1,249,571.00	60,965.00
Net interest Income.....	450,263.00	426,767.00	23,496.00
<i>Other Revenue</i>			
Application fees.....	26,833.00	16,944.00	9,889.00
Commissions—			
Real Estate.....	32,879.00	30,056.00	2,823.00
Other.....	777.00	1,291.00	(514.00)
Estate administration fees.....	92,451.00	80,912.00	11,539.00
Business Management fees.....	7,194.00	7,557.00	(363.00)
Property Management fees.....	4,773.00	4,920.00	(147.00)
Trusteeships.....	4,156.00	4,258.00	(102.00)
Realty.....	18,841.00	24,767.00	(5,926.00)
Loan insurance refund.....	40,408.00	40,411.00	(3.00)
Safety deposit box rentals.....	101.00	100.00	1.00
Sundry.....	2,160.00	2,060.00	100.00
Total Other Revenue.....	230,573.00	213,276.00	17,297.00
Total Revenue.....	680,836.00	640,043.00	40,793.00
Less: Operating Expenses.....	509,829.00	500,648.00	9,181.00
Net Savings to October 31, 1967.....	171,007.00	139,395.00	31,612.00

CO-OPERATIVE TRUST COMPANY LIMITED

Schedule of Expenses for the 11 Month Period Ended October 31, 1967

	Actual	Budget	Increase (Decrease)
	\$	\$	\$
Advertising.....	6,936.00	8,475.00	(1,539.00)
Audit.....	6,162.00	5,915.00	247.00
Annual Meeting.....	2,309.00	1,859.00	450.00
Commissions.....	5,452.00	3,275.00	2,177.00
Depreciation.....	10,651.00	10,791.00	(140.00)
Directors and Investment Committees.....	9,337.00	8,667.00	670.00
Exchange and Bank charges.....	2,135.00	2,212.00	(77.00)
Grants and Donations.....	15,447.00	15,611.00	(164.00)
Insurance.....	89,746.00	91,126.00	(1,380.00)
Janitor and Building Expenses.....	1,290.00	1,290.00	—
Legal and Land Titles Fees.....	1,146.00	2,378.00	(1,232.00)
Licenses and Taxes.....	3,793.00	3,754.00	39.00
Light and Water.....	138.00	65.00	73.00
Medicals.....	—	150.00	(150.00)
Membership and Subscriptions.....	3,608.00	1,341.00	2,267.00
Postage.....	4,222.00	4,199.00	23.00
Recruiting.....	253.00	50.00	203.00
Rent.....	38,183.00	37,883.00	300.00
Rentals and Repair of Office Equipment.....	2,453.00	2,114.00	339.00
Office Assistance.....	573.00	129.00	444.00
Salaries.....	241,787.00	244,837.00	(3,050.00)
Sales Commissions—Real Estate.....	7,689.00	7,658.00	31.00
Staff Benefit.....	16,295.00	16,717.00	(422.00)
Staff Training.....	2,813.00	2,048.00	765.00
Staff Moving.....	8,075.00	—	8,075.00
Stationery and Supplies.....	12,041.00	10,288.00	1,753.00
Sundry.....	1,093.00	842.00	251.00
Telephone.....	5,460.00	4,953.00	507.00
Travel.....	10,742.00	12,021.00	(1,279.00)
	509,829.00	500,648.00	9,181.00

CO-OPERATIVE TRUST COMPANY LIMITED

BALANCE SHEET

As at October 31, 1967

ASSETS

Capital Section	Actual	Budget	Increase (Decrease)
	\$	\$	\$
<i>Current Assets</i>			
Cash.....	2,809	729	2,080
Fixed deposits.....	100,000	100,000	—
Demand deposits.....	375,000	431,000	(56,000)
Travel advances.....	650	525	125
Accounts receivable.....	42,106	8,000	34,106
Accrued Interest receivable.....	49,295	25,000	24,295
Prepaid expenses.....	11,907	12,500	(593)
Due from other accounts.....	6,114	5,000	1,114
Investment in Fixed Income Fund.....	99,000	—	99,000
TOTAL CURRENT ASSETS.....	686,881	582,754	104,127
<i>Investments</i>			
Shares—			
S.C.C.S.....	100,020	100,020	—
Other.....	2,091	808	1,283
Bonds and Debentures—			
Co-operative.....	302,000	302,000	—
Government.....	108,831	58,956	49,875
Municipal.....	108,400	108,400	—
School.....	146,697	161,669	(14,972)
Hospital.....	15,897	11,000	4,897
Total Investments.....	783,936	742,853	41,083
Less: Provision for losses.....	4,696	4,668	28
NET INVESTMENTS.....	779,240	738,185	41,055
<i>Fixed Assets</i>			
Cost less accumulated depreciation:			
Land.....	138,008	137,700	308
Buildings.....	457,706	451,817	5,889
Furniture and Fixtures.....	60,177	55,713	4,464
Automobiles.....	8,647	8,821	(174)
Parking Lot and Fence.....	5,083	3,970	1,113
TOTAL FIXED ASSETS.....	669,621	658,021	11,600
TOTAL CAPITAL ASSETS.....	2,135,742	1,978,960	156,782

CO-OPERATIVE TRUST COMPANY LIMITED

BALANCE SHEET

As at October 31, 1967

LIABILITIES

Capital Section	Actual	Budget	Increase (Decrease)
	\$	\$	\$
<i>Current Liabilities</i>			
Loan—S.C.C.S.....	88,374	4,405	83,969
Accounts Payable.....	4,121	1,500	2,621
Property Management Liability.....	2,008	2,000	8
Suspense.....	4,079	5,000	(921)
Unallocated Loan Insurance Refund.....	3,673	3,624	49
Mortgage Instalments due within 1 Year.....	2,900	2,900	—
TOTAL CURRENT LIABILITIES.....	105,155	19,429	85,726
<i>Long Term Liabilities</i>			
Mortgage Payable.....	40,867	40,911	(44)
Deferred Income Tax Payable.....	53,697	46,509	7,188
TOTAL LIABILITIES.....	199,719	106,849	92,870
<i>Shareholder's Equity</i>			
Shares—Issued and fully paid.....	1,584,830	1,552,530	32,300
Reserves—Statutory.....	123,683	123,683	—
Additional reserve for doubtful Loans.....	56,386	56,386	—
General.....	117	117	—
Saving for period ended Oct. 31/67.....	171,007	139,395	31,612
TOTAL SHAREHOLDER'S EQUITY.....	1,936,023	1,872,111	63,912
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY.....	2,135,742	1,978,960	156,782

CO-OPERATIVE TRUST COMPANY LIMITED

BALANCE SHEET

As At October 31, 1967

ASSETS

Guaranteed Trust Section	Actual	Budget	Increase (Decrease)
	\$	\$	\$
<i>Current Assets</i>			
Fixed deposits.....	1,400,000.00	1,400,000.00	—
Accrued interest receivable.....	432,534.00	344,850.00	87,684.00
Demand deposits			
S.C.C.S.....	938,700.00	379,900.00	559,700.00
F.C.L.....	600,000.00	600,000.00	—
C.C.S.M.....	500,000.00	—	500,000.00
Other.....	2,600,000.00	2,500,000.00	100,000.00
TOTAL CURRENT ASSETS.....	6,471,234.00	5,223,850.00	1,247,384.00
<i>Investments</i>			
Shares—S.C.C.S.....	300,000.00	300,000.00	—
Bonds and Debentures—			
Co-operative.....	370,000.00	70,000.00	300,000.00
Government.....	500,541.00	811,000.00	(310,459.00)
Municipal.....	302,309.00	234,734.00	67,575.00
School.....	494,174.00	466,041.00	28,133.00
Hospital.....	66,054.00	31,274.00	34,780.00
Other.....	29,950.00	29,950.00	—
	2,063,028.00	1,942,999.00	120,029.00
<i>Less: Provision for loss on redemption.....</i>	<i>5,235.00</i>	<i>5,185.00</i>	<i>50.00</i>
	2,057,793.00	1,937,814.00	119,979.00
Mortgage loans.....	15,360,015.00	15,217,713.00	142,302.00
Agreement for sale.....	6,850.00	6,870.00	(20.00)
TOTAL INVESTMENTS.....	17,424,658.00	17,162,397.00	262,261.00
TOTAL GUARANTEED TRUST ASSETS.....	23,895,892.00	22,386,247.00	1,509,645.00

FAMILY FARM SECTION—ASSETS

Cash.....	7,576.00	258.00	7,318.00
Demand Loan—			
S.C.C.S. redemption fund.....	142,200.00	142,200.00	—
S.C.C.S. repayment fund.....	167,100.00	773,000.00	(605,900.00)
Accrued interest receivable.....	171,038.00	171,000.00	38.00
Shares—S.C.C.S.....	50,000.00	50,000.00	—
Mortgage loans.....	4,414,849.00	4,522,142.00	(107,293.00)
Bonds and debentures.....	800,000.00	—	800,000.00
TOTAL FAMILY FARM ASSETS.....	5,752,763.00	5,658,600.00	94,163.00

Estate Trust and Agency

Assets under administration.....	7,145,962.00
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CO-OPERATIVE TRUST COMPANY LIMITED

BALANCE SHEET

As At October 31, 1967

LIABILITIES

Guaranteed Trust Section	Actual	Budget	Increase (Decrease)
	\$	\$	\$
<i>Current Liabilities</i>			
Loan—S.C.C.S.....	1,323,684.00	614,325.00	709,359.00
Guaranteed Savings Accounts and Trust Accounts.....	2,103,819.00	1,631,000.00	472,819.00
C.I.C.'s due within 1 year.....	2,001,850.00	1,670,000.00	331,850.00
Accounts payable.....	4.00	—	4.00
Accrued interest payable.....	708,369.00	501,270.00	207,099.00
Due to other accounts.....	471.00	100.00	371.00
TOTAL CURRENT LIABILITIES.....	6,138,197.00	4,416,695.00	1,721,502.00
<i>Long Term Liabilities</i>			
G.I.C.'s			
10 year 4½%.....	314,450.00	565,550.00	(251,100.00)
20 year \$44.46.....	231,623.00	236,400.00	(4,777.00)
20 year \$40.00.....	43,325.00	52,032.00	(8,707.00)
25 year 5%.....	29,000.00	29,000.00	—
10 year 5% Series "B".....	1,842,900.00	1,816,900.00	26,000.00
10 year 5% Series "C".....	7,425,370.00	7,421,270.00	4,100.00
1.2,3 year 5½% Series "D".....	453,700.00	381,400.00	72,300.00
10 year 5½% Series "D".....	461,000.00	461,000.00	—
10 year 6% Series "D".....	1,195,900.00	1,202,400.00	(6,500.00)
1.2,3 year 6% Series "D".....	685,950.00	980,000.00	(294,050.00)
4.5 year 6½% Series "D".....	980,600.00	1,235,000.00	(254,400.00)
10 year 6½% Series "D".....	2,219,900.00	1,723,000.00	496,900.00
10 year 6¾% Series "D".....	624,500.00	624,500.00	—
15 year 7% Series "D".....	641,100.00	641,100.00	—
Retirement Savings Funds.....	608,377.00	600,000.00	8,377.00
TOTAL LONG TERM LIABILITIES.....	17,757,695.00	17,969,552.00	(211,857.00)
TOTAL GUARANTEED TRUST LIABILITIES.....	23,895,892.00	22,386,247.00	1,509,645.00

FAMILY FARM SECTION—LIABILITIES

Loan—S.C.C.S.....	12,407.00	—	12,407.00
Accrued interest payable.....	227,734.00	22,000.00	5,734.00
Due to other accounts.....	22.00	—	22.00
Guaranteed Farm Credit Securities—			
Vendor.....	1,106,000.00	1,030,000.00	76,000.00
Government.....	4,406,600.00	4,406,600.00	—
TOTAL FAMILY FARM LIABILITIES.....	5,752,763.00	5,658,600.00	94,163.00

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1967

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 11

THURSDAY, DECEMBER 7, 1967

RESPECTING

Regulations made pursuant to section 92 of the Bank Act and section 80 of the Quebec Savings Banks Act (Bank cost of borrowing disclosure regulations).

WITNESS:

Mr. W. E. Scott, Inspector General of Banks.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hees,	Mackasey,
Beaulieu,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Johnston,	Monteith,
<i>Cowichan-The Islands</i>),	Laflamme,	More (<i>Regina City</i>),
Cantin,	Lambert,	Noël,
Comtois,	Latulippe,	Tremblay (<i>Matapédia-</i>
Flemming,	Lind,	<i>Matane</i>),
Gilbert,	Macdonald (<i>Rosedale</i>),	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDERS OF REFERENCE

TUESDAY, November 28, 1967.

Ordered,—That the Regulations made pursuant to section 92 of the Bank Act and section 80 of the Quebec Savings Banks Act, tabled on October 12th, 1967, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

WEDNESDAY, November 29, 1967.

Ordered,—That the name of Mr. Hees be substituted for that of Mr. Fulton on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

ALISTAIR FRASER,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, December 7, 1967.
(12)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Cantin, Clermont, Comtois, Gray, Irvine, McLean (*Charlotte*), Tremblay (*Matapédia-Matane*)—(9).

In attendance: Messrs. W. E. Scott, Inspector General of Banks; R. Humphrys, Superintendent of Insurance; J. W. Ryan, Director, and J. C. Pfeifer, Legislation Section, Department of Justice; and J. H. Perry, Executive Director, Canadian Bankers' Association.

The Committee commenced consideration of the Regulations made pursuant to section 92 of the Bank Act and Section 80 of the Quebec Savings Banks Act (Bank Cost of Borrowing Disclosure).

The Chairman stated that he had instructed the Clerk to get in touch with certain organizations to inform them that this subject was under study and to inquire whether they were interested in making representations to the Committee. No definite replies had yet been received.

Mr. Scott explained the Regulations section by section and was questioned.

At 12:22 p.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, December 7, 1967.

• (11:12 a.m.)

The Chairman: Gentlemen, I would like to begin our meeting. At this stage, of course, it will be on an unofficial basis with the usual reservations. The order of business to-day is to begin a study of the regulations made under the Bank Act and the Quebec Savings Banks Act and the Bank Cost of Borrowing Disclosure. Our initial witness this morning is Mr. W. E. Scott, Inspector General of Banks, and the purpose of having him here, supported by Mr. Humphrys, Superintendent of Insurance, is to have them review with us the regulations to explain to us the intent of each of the parts of these regulations and the aims that the Governor in Council had in mind in hopefully carrying out the intentions of Parliament as expressed in the Bank Act. Before calling upon Mr. Scott, I think I should report to the Committee that I asked our Clerk to get in touch unofficially with a number of different bodies who I thought might be interested in expressing views on these regulations, and I should report the progress in this regard. I have a report here from Miss Ballantine, our Clerk. She says:

After your telephone call of November 29th, I got in touch with the undermentioned organizations to find out if they were interested in submitting a brief or appearing before the Committee when it studies the above-mentioned subject;

Consumers Association of Canada
Canadian Labour Congress
Canadian Manufacturers Association
Retail Council of Canada
Retail Merchants Association of Canada
Canadian Chamber of Commerce
Trust Companies Association of Canada
Canadian Bankers Association
Federated Council of Sales Finance Companies
Canadian Consumer Loan Association

I also suggested that she contact on the same basis the Confederation of National Trade Unions, La Confederation des Syndicats nationaux, because as you know they have a program of consumer education with respect to borrowing. I also asked that she contact on the same basis the central organization of credit unions.

Mr. Clermont: Mr. Chairman, do you have the Canadian Federation of Agriculture on your list?

The Chairman: I was going to go on to say that this is an initial list and that I was going to invite comments from the Committee as to other groups who might be contacted unofficially to see if they want to appear. Naturally, it is open to any individual or group other than those whom I have mentioned here to signify to us their interest in presenting their views and I will say this now. I was going to suggest to the Committee that rather than have a closing date for briefs, we take the people as they get ready and so on, because I do not think there is any immediate urgency in reporting back on these regulations and it may be that other business will come up in the meantime. And it may be since our meetings are quite well covered by the press, that if they see fit to report our proceedings they must want to indicate that other individuals or groups who have views on these regulations are quite welcome to signify to us that they wish to express their opinions. I would like to go on with the report of our Clerk:

Most of the individuals I contacted at these organizations said they would get in touch with me after they have checked with committees or boards of their organization, and I have had no definite replies except from the following:

The Trust Companies Association apparently feel that they have no particular comments but appreciate having been given an opportunity to consider making a submission.

The Canadian Bankers Association I understand

Wish to make a submission but most of the banks' annual meetings are in December and January so it is difficult for them...

to discuss dates at this point. Mr. Perry, Executive Director of the Canadian Bankers Association, indicated he would be attending the meeting as one of the spectators. In fact, he is here now and I see in the spectators' section a representative group of people who look like bankers, not to mention some other officials. I do not want any inferences taken one way or the other from what I have said. They will be in a position to consult amongst themselves as to when they will be in a position to submit a brief.

Consumers Association of Canada: They are interested and will probably be submitting a brief.

And this concludes the report of our Clerk, Miss Ballantine.

Before calling on Mr. Scott, perhaps the members of the Committee may have some comments on the initial steps I have taken to make sure that those who may be interested in presenting views are aware of our Proceedings. Are there additional names to suggest that we may want to contact unofficially? I think that Mr. Clermont made an excellent suggestion in naming the Canadian Federation of Agriculture and also the Union Catholique des cultivateurs. Do you think they would have an interest?

Mr. Clermont: Yes, but the U.C.C. is a member of the Canadian Federation of Agriculture.

The Chairman: Of course. That is right. They would be represented.

Mr. Clermont: What about the organization in Quebec that we call C.S.N.?

The Chairman: I have already taken steps. But we might also ask Miss Ballantine to make sure that the National Farmers' Union are aware of this. And, of course, I stress that this is merely to make sure that representative interest groups are aware of our hearings. But any individual or group is entitled to signify it would like to appear and we will consider all requests.

I take it that it is understood by the Committee that pursuant to our usual practice we will ask that written briefs be submitted in

advance in sufficient time to permit us to study them before the people appear.

Are there other suggestions or comments about arrangements for witnesses outside of the government sector at this point? If not, I will call upon Mr. Scott. We all have copies, in both French and English, of the regulations. Perhaps, Mr. Scott, you might begin and review these regulations with us.

Mr. W. E. Scott (Inspector General of Banks, Department of Finance): Thank you, Mr. Chairman. These regulations are pursuant to section 92 of the Bank Act and section 80 of the Quebec Savings Banks Act. To a degree, those sections themselves contain provisions for the disclosure of cost of borrowing and in addition...

The Chairman: Excuse me, if I may interrupt. We are now in a position to proceed officially and therefore it will be possible to incorporate what has gone before into our official record. Will you continue, Mr. Scott?

Mr. Scott: The area within which the Minister was given power to issue regulations was laid down in subsection 4 of section 92, and in subsection 4 also of section 80 of the Quebec Savings Banks Act. In the case of the banks, these regulations obviously apply to a very wide range of borrowings, and as you will see, the regulations are broken down into sections where these credits are grouped broadly by type. The first grouping refers to borrowings where the repayment will be in fixed amounts at fixed dates. This group was segregated because it was a group for which it would be possible to ask banks to disclose dollar and cents cost as well as percentage cost of borrowing. Sections 3 to 8 of the regulations provide for the method of disclosure for that type of loan. Subsection 3 was intended to make it clear that if a bank negotiated a credit with a customer before a loan actually was made under the credit, disclosure would be made at the earlier date, the date at which the credit had been set up.

• (11:20 a.m.)

Section 4 (1) simplifies the calculation to this degree, that all months are regarded as of equal length under the method of calculation so that it does not matter whether February has 28 days and another month has 31 days.

Mr. Clermont: Mr. Chairman, are we to pose our questions only at the end of the explanation or as each section is explained?

The Chairman: We will follow the procedure the Committee thinks most convenient.

Would you prefer an over-all bird's eye look at the regulations and then return to individual sections or would you prefer to have questions on each section as we go along? I think that since Mr. Scott is dealing with it, in effect, section by section perhaps once we hear his initial remarks on an individual section, if you have a question you may as well ask it while it is fresh in your mind.

Mr. Clermont: I am asking for your guidance.

The Chairman: Yes. I think we may as well have questions on individual sections, if this meets the wishes of the Committee. Do you have a question, Mr. Clermont?

[Translation]

Mr. Clermont: Mr. Scott, in subsection (1) of section 4, one-twelfth of the nominal annual percentage rate is mentioned. When it is a question of a loan granted to individuals...

The Chairman: Please continue.

Mr. Clermont: Are you listening to the simultaneous translation Mr. Scott?

Mr. Scott: Yes.

Mr. Clermont: My question bears on subsection (1) of section 4 where we may read:

"The rate applied to each repayment period shall be one-twelfth of the nominal annual percentage rate."

When a loan whose repayment stretches over a three year period is granted to individuals, is the interest rate based on a period of 12 months or 36 months? This is what I mean ...

[English]

Mr. Scott: Subsection 4(1) does not deal with the period of the loan but simply how the annual interest rate will be divided for the purpose of applying month by month. For example, if the nominal annual percentage rate was 12, then the monthly rate used would be 1 per cent.

[Translation]

Mr. Clermont: Yes, but you speak of a case where the interest rate is 12 per cent. Is the 12 per cent based on the total amount?

If an individual comes to a bank in order to obtain a loan, say, of \$1,000 repayable over 36 months, will the interest rate be

taken on the \$1,000 for 36 months and then divided by 1/12?

[English]

Mr. Scott: The interest rate is applied, at the end of each repayment period, on the amount outstanding and not repaid at that date. This is provided in later subsection of section 4, so that if a loan was being repaid by instalments, on the example of a 12 per cent nominal annual rate, 1 per cent would be applied to the amount outstanding in the first month. If that amount were less in the second month, 1 per cent would be applied to the lesser amount.

[Translation]

Mr. Clermont: If after one year the borrower no longer owes \$1,000 if he owes \$1,000 minus payments, is the interest rate charged on the \$1,000 for 36 months?

[English]

Mr. Scott: It is charged on the lesser amount which is outstanding at the date the interest is calculated.

[Translation]

Mr. Clermont: Is it calculated when the loan is made?

[English]

Mr. Scott: The borrower is told when the loan is made what the loan will cost, but in the calculation interest is worked out each month on the amount he owes at that time, not on the original and larger amount.

[Translation]

Mr. Clermont: I understand this perfectly, Mr. Scott, but I want you to assure me that the borrower who requests a loan of \$1,000 repayable over 36 months, does not pay 12 per cent on the \$1,000 borrowed for 36 months but only on the sum that he still owes, say, after one year. I would like you to tell me, for instance, if the rates of the loan for the following year will be calculated on \$600 only, and not on the \$1,000.

[English]

Mr. Scott: What you have said is quite right. That is the way it works.

Mr. Clermont: Thank you.

The Chairman: Are there further questions at this stage?

Mr. Scott: Subsection (2) of section 4 is a simplification designed to deal with the situa-

tion of borrowers who might come in at an odd date in the month and arrange a loan but who, because of the date their wage or salary was being paid, would prefer to have some other date as the date they would pay principal and interest. This provides, at the borrower's choice, for him to select that date and if he selects a date within the range of 15 days to 45 days, the first period is treated as a month whether it is 15 days or 45 days but this cannot be selected against the borrower. He has to indicate that this is the arrangement he wishes. If he wishes that, then it is regarded as even months from the point of view of calculating interest. This permits banks to issue budget books or schedule books regardless of the odd date at which the transaction might first be arranged. Are there any questions?

The Chairman: I think you may continue.

Mr. Scott: Section 5 is to deal with the type of transaction where repayments are regular but not monthly—for example, weekly or quarterly—and that simply says that as provided in section 4 (1) it is that fraction of the annual rate which the payment period is of one year. It would be one quarter of the annual rate if it were a quarterly basis of repayment.

Section 6 simply indicates the timing of the payments; that is, they are made as at the end of periods, not at the beginning of periods.

Section 7 indicates that the first application shall be to pay the cost of borrowing, that is, the interest in general, applicable to the period and then any payment above that amount is applied to reduce the principal owing on the loan.

Section 8 indicates the kind of loan in which the bank shall indicate the dollar and cents cost as well as the nominal annual percentage rate, and it is for loans where the term does not exceed five years. It was felt that the dollar and cents disclosure becomes rather meaningless if it is a very long-term mortgage loan for 30 years. It is very difficult. By that time the interest is more than the original loan by quite a bit. Five years was thought to cover the typical transaction under a personal loan plan or other arrangement of that kind.

• (11:30 a.m.)

[Translation]

Mr. Clermont: Mr. Chairman, section 8 concerns individuals who request a loan for a

period of two or three years. In what manner do we inform them of the cost of their loan? Is it at the very moment that the note is signed or do we give them verbal explanations?

If someone requests a loan of \$1,000 and the loan plus the interest adds up to \$1,200, do we tell him that the cost of a loan for a period of "X" years is \$200?

[English]

Mr. Scott: In the example you have used the total charges of \$200 would be disclosed to the borrower and also the rate as a nominal annual percentage rate which that \$200 was of the amount of his loan. Incidentally, the method of disclosure is covered in these regulations under section 11.

Mr. McLean (Charlotte): Mr. Chairman, does it say in section 9 in respect of a demand loan that disclosure must be for the period of a year?

Mr. Scott: Section 9 deals with what is called variable types of loans, of which the demand loan is one, and the effect of that section is to require the bank to disclose the percentage rate of charge, not the dollar and cents amount, because in advance that dollar and cents amount would not be ascertainable or calculable since we do not know when the borrower will decide to repay the loan—it might be in a week, six months or a year.

Mr. McLean (Charlotte): I am talking about the bank. Can the bank change the rate? If a man goes in and borrows \$100,000 at 6 per cent can the bank raise the rate on that loan from the original 6 to 6.5 per cent?

Mr. Scott: This would depend on the nature of the borrowing contract. If it were a loan for a specified period of time with an interest rate written into the note then it is my understanding that that rate could not be changed within that period of time. If it is a demand loan with no period of time specified and with the borrower free to repay at any time or the bank free to call for repayment at any time, then it is my understanding that the bank asks the borrower to agree to the higher rate of interest if it wishes to charge one, but if the borrower does not wish to pay it he of course has the option of paying off the loan and going somewhere else.

Mr. McLean (Charlotte): Demand loans are generally of the latter type and they can pay them off, increase them and so on but they do not know when taking a demand loan for

any length of time whether or not the cost is going to go up.

Mr. Scott: That is right.

Mr. McLean (Charlotte): Under this legislation the borrower would not be protected. His charges on a loan of a half million dollars, borrowed at 6 per cent, might be increased to 7 per cent and this might make all the difference in the world.

Mr. Scott: But if he refuses to agree to the 7 per cent rate his relief is to pay off because in a demand loan this is an original condition of the borrowing.

Mr. McLean (Charlotte): What benefit would that be to him when the banks raise all the rates at the same time?

[Translation]

Mr. Clermont: It is question of a choice which is more or less real, Mr. Scott, when you say that if the borrower refuses to pay the higher rate, he may pay the loan and refuse to pay the higher interest rate. It is a choice which exists more or less in closed circuit.

[English]

Mr. Scott: Of course the purpose of these regulations was not to fix interest rates, it was to require disclosure of what the rate was on the borrowing that he had arranged. I suppose if one does not want to be exposed to the risk on a demand loan one tries to negotiate a loan for a period within which he expects to be able to repay.

Mr. McLean (Charlotte): I would think it would be a term loan then and not a demand loan.

Mr. Scott: That would become a term loan, that is right.

Mr. Clermont: Mr. Scott, since the new regulations have come into force have the banks, in your experience, taken the opportunity to raise their rate of interest on loans to the top level of 7.25 per cent or was there a gradual escalation?

Mr. Scott: I think it was gradual but bankers themselves could answer this better than I. I know there are still many borrowers who are paying less than 7.25 per cent, but there has been a general rise as interest rates in the market and elsewhere have gone up.

Mr. Clermont: Mr. Chairman, Mr. Scott has indicated that one of the representatives of

the Canadian Bankers Association would reply to my question.

The Chairman: Actually our schedule of witnesses today only involves Mr. Scott and government officials for the purpose of making sure we had an over all understanding of the intent of the regulations.

Mr. Clermont: Thank you.

The Chairman: We will have an undivided opportunity to hear from the bankers a little later on and perhaps we might store up our questions until that time.

Mr. Clermont: Yesterday one of my colleagues received a letter from a borrower stating that his banker requested 7.25 per cent, the reason given being the devaluation of the pound sterling. Maybe the bankers can take that as notice and comment on it when they appear before us.

The Chairman: Yes.

Mr. Wahn: Apparently I am not moving as fast as the rest of the Committee but I would like to ask Mr. Scott what the purpose is of section 7.

Mr. Scott: It is to make clear the timing within the over-all period of repayment on a loan which was being paid by instalments—when the interest calculation should be made and the order of precedence between the interest component of a payment and the principal component. The first thing is to take the interest and then if the payment is in excess of interest to reduce the principal at the end of the period.

Mr. Wahn: Is there any particular reason for that particular allocation? I believe the ordinary rule of law is that the payor has the right to allocate a payment in such way as he sees fit. If he fails to allocate it then I think the payee can allocate it. Could you tell us why this is so?

Mr. Scott: If that flexibility existed in regard to these provisions then a bank would not be able to tell a borrower in advance what his cost of borrowing would be because if he exercised that right at times throughout the period of the loan it would affect the cost and rate of cost on the loan.

Mr. Wahn: Whether the payment was applied against interest or in reduction of the principal, would it have an effect on the cost of the loan?

Mr. Scott: Yes, I believe it would.

Mr. Wahn: Perhaps it is just a question of drafting but in that same clause it says:

Any repayment ... shall be applied first to pay to the cost of borrowing applicable to the repayment period ...

What repayment period would that be?

Mr. Scott: The simplest example would be a month. If a \$1000 loan was being repaid month by month and if the interest at the end of the first month was \$50 and the payment was \$100, the cost of borrowing in the amount of \$50 would be taken off and the remaining \$50 would be used to reduce the unpaid balance for the second repayment month to \$950.

• (11:40 a.m.)

Mr. Wahn: Is the wording sufficiently clear that any repayment shall be applied, first, to pay the cost of borrowing applicable to the repayment period? The regulation does not say what repayment period.

You have a loan with a number of repayment periods. Let us suppose the time of repayment is at the end of each month. If a repayment were made on January 31, does this mean that the amount is applied against the interest cost in January?

Mr. Scott: Yes.

Mr. Wahn: It does not say that.

Mr. Scott: That certainly is the intent. We have had no difficulty over this interpretation.

Mr. Wahn: In section 8 is there any particular significance in the five-year period? Is that statutory?—

Mr. Scott: It is somewhat arbitrary, I suppose. It was intended to be long enough to include the type of loan made under banks' personal loan plan but not so long as to get into the traditional long-term mortgage field. I just thought that five years would accomplish that purpose.

Mr. Wahn: Section 9 requires the bank to make disclosure of interest rates on a hypothetical basis in a sense; that is, on the hypothesis that there will be no repayment for a year.

Mr. Scott: On the ordinary type of promissory note borrowing where a rate of interest is written right into the note, the method outlined here would work back to a figure the same as in the note itself.

Mr. Wahn: If, in fact, a repayment were made within the year, is there any difficulty in converting the hypothetical rate to the actual rate, because the regulations do not specify how any such conversion is to be made.

Mr. Scott: The rate on that particular note for the period it was outstanding would be the one disclosed. If the borrower wanted an extension, then there would be another note drawn and a second disclosure.

Mr. Wahn: Suppose a man borrows a thousand dollars payable on demand and suppose the effective rate is 12 per cent, to take an easy figure, and he repays half the loan at the end of six months, the hypothetical rate is 12 per cent. How does the bank apply the hypothetical rate to the actual fact? On a monthly basis, or on a daily basis or what?

Mr. Scott: For the exact period for which the amount was outstanding; his account would be charged with the interest for that period.

Mr. Cameron (Nanaimo-Cowichan-The Islands): There is no disclosure on demand loans.

Mr. Scott: Yes, but in the case of the demand or other variable type of loan, the disclosure is confined to disclosing a percentage rate, not a cost in dollars and cents.

Mr. Wahn: As a matter of interest, how would it be calculated in the case that I have given. Would it be taken as the one half year or would it be taken as so many days?

Mr. Scott: Subject to correction by the bankers, I think so many days, the number of days for which the borrowing was outstanding, unless the note itself provided otherwise.

Mr. Wahn: That is all, Mr. Chairman.

The Chairman: Do you have any further questions at this point, gentlemen? If not, I will ask Mr. Comtois.

[Translation]

Mr. Comtois: I would like to ask an additional question, Mr. Scott. In section 9, there is nothing which prevents the banks from increasing their rates during the year and having a new note signed.

[English]

Mr. Scott: As I mentioned in answer to the earlier question, if the borrowing was for a period of time—30 days, 60 days or longer—

then the bank would have no right to change the rate during that period. If the loan were demand, which gives both borrower and lender the right to cancel the arrangement, then the bank would be in a position to ask for an increase in rate and, if the borrower did not agree, to ask for repayment of the loan.

Mr. Comtois: Thank you.

Mr. Scott: We have now dealt, I think, with the second area of loans that are referred to at the beginning where the arrangements are not fixed or determinable enough to permit the disclosure of a dollar and cents cost. The third kind of loan is, I think, really a minor part of the total and it is provided for in section 10 (c). Apparently there are occasions when customers approach a bank, indicate that they have some type of transaction afoot and, if it works out with a certain timing, they may not require assistance from the bank but, on the other hand, if there were any delay in a payment being received, for example, they might need financing for one, two, three or a longer period of days.

For that type of situation it is customary for a bank, if it agrees that it is a desirable loan, to arrange with the borrower to cover him but the work involved, in the opinion of the bank, justifies a fixed charge regardless of whether it is for one day or three days or a week. For that type of transaction they tell the borrower that his cost will be so many dollars. In advance it would be impossible to convert that dollar cost to a nominal annual percentage rate because the period is unknown.

It might be that he would not draw the amount at all or he might draw it for a longer period than he had indicated so that we have provided in section 10 (c) for the bank to make a minimum charge, not exceeding five dollars, and if it does so and discloses the amount of that charge to the borrower in dollars and cents, the bank is relieved of the responsibility for making a percentage calculation.

Mr. Wahn: Would that additional five dollar charge be applied to any loan?

Mr. Scott: Not a loan in which there was provision for interest or other charges. It is where the cost of borrowing consists only of the fixed minimum charge. If a bank were specifying interest, it could not use this section 10 (c) provision.

Mr. Wahn: What is the significance of the word "minimum" in there then? That is the thing that puzzles me.

a loan or advance where the cost of borrowing consists only of a fixed minimum charge

It could not be more than five dollars?

Mr. Scott: That is right. The word "minimum" was intended to provide that even though the borrowing were outstanding for one day as against a week that he might have asked to be covered for, he would still pay the amount not exceeding five dollars which had been agreed to.

The Chairman: The sum of five dollars is not a daily charge, is it?

Mr. Scott: No, once and for all. It is the total charges on that transaction.

Now the remainder of section 10 is concerned with special cases where, under the power given to the Minister in section 92, subsection 4, it was felt that special disclosure under this section should not be required. The first of those (a) is to eliminate transactions exceeding \$25,000. The overriding intent of section 92 was to provide information to borrowers who might not be knowledgeable about percentages and amounts of charges to make sure that they understood the commitment they were entering into. It was felt that on the larger loans—these would not likely be, for example, of the consumer type—the borrower did not need the type of disclosure provided for in this subsection. Subsections (a) and (b), incidentally, both refer to the \$25,000 limit, one where it is done under a credit and the other where the loan is made otherwise than under a credit. We have dealt with subsection (c). Subsection (d) deals with the situation of overdrafts. If a borrowing took place by way of overdraft and where the borrower had arranged with the bank earlier that he would be permitted to borrow by way of overdraft, then the bank would be required to disclose the cost of borrowing under presumably section 9, just as if it were an ordinary loan. But if the overdraft occurs by the customer of the bank simply issuing a cheque against his deposit account without prior arrangement with the bank, it was felt that if we required prior disclosure to such a borrower, it would put the bank in the position of having to refuse to cash the cheque and of embarrassing the customer. So if a borrower is granted a loan by a bank by a

non pre-arranged overdraft, the bank is relieved of the responsibility of notifying the customer of the cost of borrowing in advance.

The Chairman: How do you distinguish between the non pre-arranged overdraft, which is referred to in section 10 (d), and the provisions of section 9? There appears to be no wording in section 10 (d) limiting the exception to non pre-arranged overdrafts. I do not quarrel personally with the intent.

Mr. Scott: The intent of section 9 in referring to granting to a person a credit would be that if a bank authorized an overdraft, that is granting a credit. That was our understanding.

The Chairman: But you say that in spite of the rather unequivocal wording of section 10(d), if the bank in advance says, "we are going to handle this by way of overdraft", then section 9 would apply.

Mr. Scott: Yes.

The Chairman: I think it is a fact, though that overdrafts are not used as frequently for pre-arranged loans as they were some years ago.

Mr. Scott: I think that has been the trend.

Mr. McLean (Charlotte): Mr. Chairman, an overdraft is often prepared without the knowledge of the drawer of the cheque. If the deposits do not get there on time there would be overdrafts. I do not see how you can pre-arrange anything on that account.

Mr. Scott: But this is the sort of situation that it was intended to guard against.

Subsection (e) is to cover the situation on certain kinds of mortgage loans. I might just read the words of section 6 of the Interest Act in part. The statements which is referred to in section 10 (e) is

...a statement showing the amount of such principal money and the rate of interest chargeable thereon, calculated yearly or half yearly, not in advance.

It was felt that there would be confusion if the borrower as part of the mortgage contract were furnished with that rate and then were required to be given a rate calculated in accordance with the provisions of this section, which might differ a little because of the methods prescribed here for the calculation. Seven per cent, for example, might be in the mortgage and the cost of borrowing

calculated as provided might work out at 6-7/8 or 7-1/8. The borrower would be somewhat confused. It was felt that if he were already being given a disclosure pursuant to the Interest Act, that would be sufficient.

Subsection (f) is somewhat the same kind of problem. It was discovered in working on this matter that there are various acts of Parliament and of the provincial legislatures which, particularly in the case of guaranteed loans, have prescribed a certain maximum rate of interest. The method for the kind of rate of interest varies from act to act; there is not a common description. Again it was felt that the disclosure of the rate required by the Act, or a lesser rate if the maximum were not being charged, would be sufficient, rather than again risk the confusion of disclosing two rates of interest to the borrower.

• (11:50 a.m.)

[Translation]

Mr. Clermont: Does subsection (f) bear upon loans to small industries and loans for the purchase of agricultural equipment or machinery?

[English]

Mr. Scott: Yes, those would be examples of legislation where a maximum rate is prescribed.

Subsection (g). Ordinarily I understand a letter of credit issued to a customer of a bank is not expected to lead to a loan. It is assurance to the shipper of goods that the money will be available when the goods are received. Normally the purchaser would make arrangements to have money in his deposit account to make payment at the appropriate date, but there might be a case where the customer did not have the money available and would need to borrow from the bank. It would be difficult for the bank to disclose the cost at the time the letter of credit was arranged. It would be possible to disclose to the borrower at the time he actually had to arrange a borrowing. So that this is intended to defer the disclosure of cost of borrowing to the time, perhaps the unlikely event, that a borrowing actually would take place, and not to require it at the time of issue of a letter of credit. I suppose the effect of this really is to say that a letter of credit itself is not the extension of a credit.

Mr. McLean (Charlotte): Mr. Chairman, are there not two kinds of letters of credit—one covering the purchase of goods, and the other covering, say, a gentleman travelling around and drawing from time to time?

Mr. Scott: I believe that is so.

Mr. Wahn: Mr. Chairman, did I understand Mr. Scott to say that the purpose of this subsection was merely to defer disclosure until such time as a loan or advance was actually made, pursuant to a letter of credit?

Mr. Scott: Yes.

Mr. Wahn: Where is that intent stated in this section, Mr. Scott? Does this not exempt any loan or advance made pursuant to a letter of credit, even if, in fact...let me put it this way. Let us assume that the letter of credit is issued—and I agree that it might well be that it might never be used—but if it were used and a loan or advance were made, presumably that would be a loan or advance made pursuant to the letter of credit within the meaning of this language. At the time that the loan or advance is actually made, where is the provision in the regulations for the disclosure at that point of time?

Mr. Scott: The intent of these words was that the letter of credit issued would not contain any provision about a loan. As I understand it, it is an assurance by the purchaser to the seller of the goods, or the shipper of the goods, that payment will be available. My understanding of the intent of these words is that the issuance of that type of assurance was not in itself to be construed as a credit or a loan, but that it was not intended to eliminate the need for disclosure if the person to whom the letter of credit was issued at a later date came to the bank and said: "I find that I am going to need a loan in order to meet this payment."

Mr. Wahn: I merely wonder whether the wording is apt to carry out that intent, because I think it might be argued that in the circumstances which you have just mentioned the loan or advance made at that later date by the bank had been made pursuant to the letter of credit.

Mr. Scott: But not pursuant to any provision in the letter of credit. I would not want to argue with you over the meaning of the word "pursuant".

Mr. Wahn: To me the wording does not carry out the intent that you have described, Mr. Scott.

The Chairman: I presume that it is contemplated that these regulations may be

amended from time to time as experience is accumulated with their administration.

Mr. Scott: The Minister has that power.

• (12 noon)

The Chairman: Yes. Comments of this type I trust will be taken into account. Now, perhaps you can move along to subsection (h).

Mr. Scott: Subsection (h) is to deal with the type of transaction in which a customer of the bank discounts or sells to the bank an instrument payable by someone else. It might be a merchant who has sold goods and was given a draft or other negotiable instrument due in X days and the merchant needing the cash goes to the bank and sells that instrument to the bank. This type of payment by the bank is not regarded as a loan to that customer. If the instrument were not paid at maturity by the first party and the customer of the bank had to negotiate a loan in order to pay the bank then of course that loan would be subject to the normal disclosure provisions.

[Translation]

Mr. Clermont: Tell me, Mr. Scott, why there is a distinction between the two kinds of loans? In effect, if a client negotiates a note which was given him at the time of the sale of merchandise, he is giving an additional guarantee to the bank, in most cases. Why then would the interest rates not be declared in reference to those notes? Why do we maintain a distinction?

[English]

Mr. Scott: I am sorry, Mr. Clermont, but something seems to have gone wrong with our equipment.

Mr. Clermont: I will ask my question in English. Why do you make a distinction in 10 (h) (ii) between a note signed by a borrower and a note given by a borrower but signed by somebody else on the sale of goods when in most cases if a borrower gives a note that was given to him it will bring to the bank an actual security?

Mr. Scott: That was restricted to notes signed by other than the person discounting it at the bank so there would not be an opening there to avoid making disclosures. If I went to the bank with my own note and discounted it then of course I am the borrower and I should get the normal disclosure of charges—the cost of borrowing—whereas if I take in someone else's note he is really the

borrower and I am selling an asset of mine, and it was felt that there did not need to be disclosure to me because I am not the borrower.

Mr. Clermont: From your explanation, the second borrower does not need an explanation.

Mr. Scott: No.

Mr. Clermont: It is his hard luck if he has no money when he buys the goods.

Mr. Scott: He is not regarded as a borrower for the purpose of these provisions but as someone disposing of an asset.

Mr. Wahn: Mr. Chairman, in the case where you discount someone else's note does it make any difference whether or not the bank has recourse against the discounter? What he really is doing, in effect, is giving security. I do not see any distinction made here between a case where the bank has recourse and where it has not. I agree that if the bank buys the note signed by a third person outright and without recourse then there is no borrowing, it is a purchase and sales transaction. However, as the bank has recourse in the ordinary case when you turn over notes given by someone else or, referring to (iii) of 10(h) any other instrument—share certificates or anything at all—in effect the bank is making a loan to the discounter and taking security, and it seems odd that this would be accepted.

Mr. Scott: I would agree that as worded the matter of recourse is not dealt with specifically. I would not want to express an opinion whether a situation in which there were recourse would make it fall under, say, section 9, and that it was then a credit being granted to that man in the event that he needed it—that is, if there were non-payment of the instrument.

Mr. Wahn: My guess would be, and it would be only a guess, that unless you provide specifically that there are no exceptions where a bank has recourse under this subsection the transaction would be exempted even though the bank in fact has recourse, and that may be reasonable enough. But I think it is quite clear that in substance where a bank has recourse it is in effect and in substance a lending transaction and therefore in principle I think the Minister should consider whether or not this should be

exempted. There may be practical reasons why it should be.

Mr. Scott: I agree with you, I do not think the intent was to exempt someone against whom there was recourse.

Mr. Clermont: Mr. Scott, if the note at maturity is not paid the bank would charge that note to the person that signed the note.

Mr. Scott: Yes.

Mr. Clermont: There is no doubt about it.

Mr. Scott: Back to the person who had arranged the discount, yes. And if he required a borrowing at that stage then he would have to have disclosure made to him.

Mr. Clermont: Yes, but in a way, Mr. Scott, the fellow that presented the note at the bank for a loan is the borrower in a sense because the bank will not look far afield if the person that signs the note does not pay it at maturity—they will go after the endorser. They have two recourses: to go after the person that signed the note or the person that endorsed the note, but usually the bank will charge the note at maturity to the person that borrowed the money. Why make a difference?

Mr. Scott: If the note was a 60-day note and it was not known until that time whether the first name on the note would pay or not the bank would then have to try and disclose what would be an appropriate rate to charge at the end of the 60 days because there would be no loan involved until that time.

Mr. Clermont: There would be no loan involved?

Mr. Scott: Not to the man who discounted the note. As I understand it, this is the case. He has an asset, a claim on someone else and he has disposed of it to the bank, and it was intended not to regard that type of thing as well as other instruments which he might discount or sell as a borrowing.

Mr. Clermont: Mr. Scott, this will be my last question. If I go to my bank with a note signed by you...

Mr. Scott: Yes.

Mr. Clermont: ... who gets the loan? I get the loan, not you.

Mr. Scott: Well the bank has purchased an instrument which it expects to collect on at maturity.

Mr. Clermont: Yes, but from you or I?

Mr. Scott: If I do not pay...

Mr. Clermont: I did not say that.

• (12:10 p.m.)

Mr. Wahn: We would not want to suggest that the banks would take advantage of a loophole but I think this does provide a potential one. For example, I want to borrow \$1,000. This is a relatively small transaction where I suppose interest charges should be disclosed. So the bank says, "Well fine, you get your wife to sign a promissory note for \$1,000 and we will discount it". I presume then I would get approximately \$925 for the \$1,000 note. It seems to me that that is the very type of case, if this were done, where I should be told what that \$75 represents by way of interest charges? So as a condition of getting the \$1,000 I think a bank could say, "In order to avoid all these technical regulations, paper work and so on you can avoid it all by simply having your wife, or your son, or some other person—a friend—sign a piece of paper and we will discount it; in fact, you will be the one who is going to pay it, but we will discount it and then the regulations will not apply at all".

Mr. Scott: I suppose the husband could confuse his wife by the rate of interest that was written into the note too.

Mr. McLean (Charlotte): Mr. Chairman, if I take a note of one thousand dollars at seven and a half per cent to the bank and discount it for six and a half per cent, is the bank going to disclose that I am doing that?

Mr. Scott: No, not under this provision.

Mr. McLean (Charlotte): But it says, any other instrument here. I presume that would be drafts and such things, and I think the bank would have to disclose this because it is different from ordinary banking transactions. Many of them are in foreign fields where there are different rates of interest, different rates of discount and a person taking drafts to the bank on foreign fields would have to know what it was going to cost.

Mr. Scott: I suppose that with a business customer particularly it is frequent for these instruments to be lodged as collateral, rather than discounted.

Mr. McLean (Charlotte): No, many discount, really; letters of credit, bills of lading attached and all that sort of thing. But the bank charges different rates, different prices

and so forth; they would have to, the borrower would have to know.

The Chairman: We will have to return to this after we hear from the banks and we may want to make recommendations to the government for possible changes in these regulations after we have heard from other groups. Perhaps, Mr. Scott, you might complete your review.

Mr. Scott: Section 11 deals with the method of disclosing the costs of borrowing to the borrower. It provides that the disclosure shall be in writing, it shall be at the time of entering into the contract, and three alternative ways of making that written disclosure are provided for in subsections (a), (b), and (c).

Mr. Clermont: Mr. Chairman; Mr. Scott, I am not worrying about the person who will borrow, say, \$25,000 or more because he can look after himself. But are you satisfied that under that set of rules the consumer borrower will be protected and will be properly informed how much it will cost him for a loan, as I mentioned in my previous remarks, of \$500 or \$1,000 paid within 24 or 36 months? Are you satisfied in your capacity as Inspector General of Banks?

Mr. Scott: These regulations have been in force now for seven or eight weeks and nothing has come to my attention to date to indicate that the section in the Bank Act and the regulations that we are discussing are not accomplishing the original intent.

Mr. Clermont: Like you said in subsection (c) or by a "note signed." I mentioned a note of \$1,200 in my previous remarks that will include \$200 interest. But verbally the bank manager is giving actual information that the rate of interest is, say, $7\frac{1}{4}$ per cent and the balance is administration charges.

Mr. Scott: It might be that in the type of borrowing which is accompanied by a promissory note, all the disclosure would be in the rate of interest in the promissory note itself. That would depend on the term of the loan; that is, if it were a demand loan then just the percentage would be disclosed.

Mr. Clermont: Mr. Scott, I am especially mentioning consumer borrowers.

Mr. Scott: Well, if that promissory note were for a fixed period of time then the \$200, to use your example, would also have to be disclosed in writing to the borrower.

Mr. Comtois: As a percentage?

Mr. Scott: Both as a percentage and as an amount in dollars and cents.

Mr. Cameron (Nanaimo-Cowichan-The Islands): One thing further, Mr. Scott, in the phrase, "cost of borrowing", it appears in section 3...

Mr. Scott: That is laid down in the Act itself, Mr. Cameron, section 92 (1) (a). Perhaps you do not have it there, but it means,

the interest or discount thereon, and any charges in connection therewith that are payable by the borrower to the bank or to any person from whom the bank receives any part of such charges directly or indirectly;

Mr. Cameron (Nanaimo-Cowichan-The Islands): That covers all.

Mr. Scott: This service charge type of thing would be included.

Mr. McLean (Charlotte): Mr. Scott, is there any minimum rate established with the bank? Say someone wants \$30 for 30 days, or \$20 for 30 days? Is there a minimum rate?

Mr. Scott: Not that I am aware of; the bankers might be able to speak to that.

Mr. Clermont: Mr. Scott, coming back again to those consumer loans. Suppose that a borrower wants to pay his loan before maturity. Will there be a refund of interest?

Mr. Scott: As far as the regulations are concerned, this matter is perhaps dealt with in subsection 3 of section 92 of the Bank Act which says that,

The cost of borrowing shall be calculated, in the manner prescribed, on the basis of all obligations of the borrower being duly fulfilled,

So the regulations have not attempted to deal with the situation which might arise if the loan is paid off otherwise than as originally contracted for, either paid off earlier or falling into arrears.

Mr. Clermont: A case was brought to my attention—I agree that it was not a loan obtained from a bank, it was from a finance company—where the borrower wanted to pay his loan before the first instalment came due and he was asked an exorbitant amount of interest. Will the same thing happen in the case of such a loan under these rules?

Mr. Scott: My understanding is that banks normally make proportionate rebates on that kind of loan, but it is not a part of these requirements that they do so.

Mr. Clermont: There is nothing in the new Bank Act that can cover that?

Mr. Scott: No.

The Chairman: Perhaps if there are no further questions at this point we can move on to the final section concerning advertising.

Mr. Scott: Section 12, to just touch in passing, is only to indicate the acceptable degree of accuracy to make it unnecessary to quote to eight or ten decimal points, because that is the way it would work out from a table. It simply means the rate must be within one eighth one side or the other of the precise rate which would result from the mathematical calculation. Under section 13 on advertising the intent is that when a bank advertises any particular kind of loan, it make the same disclosure in that advertisement of the rate or the dollar and cents cost of the loan which it is advertising, just as if a borrower had approached the bank directly to obtain such a loan.

The Chairman: This means then, Mr. Scott, that if the bank makes no reference to an interest rate or charges it does not have to say anything about the cost. If it just says, "come to see for a loan", period...

Mr. Scott: Yes.

The Chairman: ... then it does not have to disclose any information about charges.

Mr. Scott: If the bank simply said, "We are in the lending business", that would not require them to make a disclosure under this section.

• (12:20 p.m.)

The Chairman: Do you have any further general discussion arising out of Mr. Scott's explanations?

We also have with us, as I mentioned, Mr. Humphrys, Superintendent of Insurance, and Mr. Ryan and Mr. Pfeifer of the Department of Justice. If we have any questions arising out of what we have heard from Mr. Scott, perhaps we might take advantage of their attendance. If not, then I suggest that we adjourn our meeting. I will be working with our Clerk to arrange for the attendance of witnesses now that we have had this prelimi-

nary explanation available both to ourselves and to the public.

Mr. Clermont: I understand Mr. Ryan is from the Justice Department. Perhaps he can amend subsection (h) about the promissory note.

The Chairman: Some other changes may be recommended to us by witnesses from the public sector which we may want to incorporate in the report and you may not want to work on this piecemeal. This meeting stands adjourned.

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OF
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lation, Secretary of State.

ALISTAIR FRASER,
The Clerk of the House.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

TUESDAY, DECEMBER 19, 1967

RESPECTING

Subject-matter of the proposed Customs Tariff Resolution

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Chairman: Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Irvine,	Mackasey,
Beaulieu,	Hees,	McLean (<i>Charlotte</i>),
Cameron (<i>Namaimo-</i>	Johnston,	Monteith,
<i>Cowichan-The Islands</i>),	Lafamme,	More (<i>Regina City</i>),
Cantin,	Lambert,	Noël,
Comtois,	Latulippe,	Tréblay (<i>Matapédia-</i>
Flemming,	Lind,	<i>Matane</i>),
Gilbert,	Macdonald (<i>Rosedale</i>),	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, December 14, 1967.

Ordered,—That the Standing Committee on Finance, Trade and Economic Affairs be empowered to consider the subject-matter of the proposed Customs Tariff resolution the texts of which were laid before the House, Monday, November 6, 1967.

Attest:

ALISTAIR FRASER,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

TUESDAY, December 19, 1967

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

SEVENTH REPORT

Your Committee recommends that it be granted leave to sit during adjournments of the House.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, December 19, 1967.

(13)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:38 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cantin, Clermont, Gilbert, Gray, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*), Noël, Tremblay (*Matapédia-Matane*), Wahn—(13).

In attendance: Dr. P. M. Ollivier, Parliamentary Counsel.

The Chairman stated that his purpose in calling the meeting had been to permit the Committee to discuss methods of procedure when considering the subject-matter of the proposed Customs Tariff resolution referred to the Committee on December 14, 1967.

It was moved by Mr. Macdonald (*Rosedale*) and seconded by Mr. Clermont that the Committee request permission to sit during adjournments of the House.

After discussion, the motion was carried.

It was agreed to commence sittings on the morning of Tuesday, January 16, 1968.

On motion of Mr. Lambert, seconded by Mr. More (*Regina City*),

Resolved,—That the closing date for reception of briefs be 12 noon, Friday, January 12, 1968.

On motion of Mr. Lambert, seconded by Mr. More (*Regina City*),

Resolved,—That the Committee will proceed in three stages:

- (a) explanation and clarification of the subject-matter of the legislation by government officials;
- (b) submissions by associations and individual members of the public who have indicated they intend to submit briefs;
- (c) detailed examination of the subject-matter of the legislation by the Committee, and general debate.

The Chairman read resolutions adopted by the Committee at the last session governing procedure followed in studying the banking legislation, and the Committee agreed to follow the same general pattern in this instance.

At 12:25 p.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, December 19, 1967.

● 1139

The Chairman: We are now in a position officially to open our meeting.

The notice of meeting indicated we would be dealing with the Kennedy Round tariff resolutions which, as you know, were referred to us late last Thursday afternoon. The reason I called this meeting at this time on rather short notice was not to begin discussion of the resolutions themselves. Those of us who have taken a quick glance at them will agree that they are very complicated and I think for us to make our study meaningful we should have a meeting to discuss our manner of approach, our arrangements and so on. Actually this is the reason for my calling this meeting at this time.

Now, I am going to make several suggestions. First, as I have said, these resolutions are very complicated. We want to hear from a number of officials; undoubtedly people from outside the government sector will want to express views and, at the same time, there is some necessity to have them back in the House. I think they go into effect provisionally at the beginning of the year anyway and we have to find some means of harmonizing these two trends.

● 1140

My proposal to the Committee is that we give consideration to meeting for several days during the week before the House opens which, I believe, is January 22, 1968. That is the date proposed, if I am not mistaken, and I suggest for the consideration of the Committee that we meet for several days during the week immediately preceding.

At that time it is my suggestion, and I have already begun contacts to this effect, we would have senior officials of the departments of Finance, Trade and Commerce and Industry to review with us the major trends implied by the Kennedy Round tariff resolutions and deal with questions on specific items, following which we would begin hear-

ing people from outside the public sector who wish to express views, not necessarily during that week but following our hearing of the officials. It is my intention, after we deal with the possibility of meeting during the week before the House resumes, to discuss such things as fixing a closing date for the reception of briefs and so on.

I think it is implicit in the types of discussions I had in mind for the week before New Year's that it should be possible to organize this discussion without putting any undue burden on anyone because, since we are not voting, we can use our special procedure that we use effectively here when we are merely taking evidence, if you know what I mean. Before asking for a formal motion in this regard I suggest that we exchange some comments informally.

Mr. Monteith: May I make some very definite comments, Mr. Chairman? I think it is complete and utter nonsense to try to sit the week before the House is meeting. Mr. Lind and Mr. Wahn are from Toronto; Mr. Irvine is from London; I am not sure where you are from; Mr. More and Mr. Lambert live here; I do not.

These resolutions are going into effect on January 1, in any case. Unless the house comes out and makes a firm and formal commitment that members of Committees be paid something extra for sitting when the House is not sitting—and the House has to do this, in my humble estimation, to make it legitimate—this Committee should not sit as you suggest. If you recall, I sat on the Pensions Committee for two weeks...

The Chairman: It was longer than that, I think.

Mr. Monteith: I beg your pardon?

The Chairman: It was for a longer period than that.

Mr. Monteith: No, I believe it was two weeks when the House was not sitting. At that time it was proposed that there might be

some method, to which I objected, of paying I think \$25 a day, but I think this is just plain ridiculous. These resolutions are going into effect on January 1, 1968, regardless of whether we approve them the week of the fifteenth or the twenty-second, or whether we take five weeks from either of those dates onward to approve them. It does not matter. I certainly will ask to be relieved of sitting on this Committee if there is any such silly proposal.

The Chairman: I will recognize Mr. Macdonald.

Mr. Macdonald (Rosedale): My position is the exact converse of almost all the proposition that Mr. Monteith put forward. In the first place, if the government had decided to call the House back the week before . . .

An hon. Member: He lives here too.

Mr. Macdonald (Rosedale): So what?

Mr. Monteith: So what!

Mr. Macdonald (Rosedale) Look, you made your statement and I did not interrupt you; now you might let me make mine. Whether or not I live here I have undertaken to be a member of Parliament on a year-round basis. I get paid on a year-round basis as a member of Parliament and I certainly do not think in all conscience this Committee or any other committee of the House could ask for additional remuneration in order to come back and do what is basically their job. It is not a question of whether or not the changes come into effect on January 1. It is a question of doing an effective job of work considering these things, and I think we all know from past experience that inevitably, with all the other competitions for our time through the week, it is difficult on a three-hour basis each Thursday morning, or whatever it may be, to do an effective job. I think we can do an effective job if we come back the week before, and I certainly would support a request that the government make that provision.

The Chairman: I will recognize Mr. Jack Irvine, followed by Mr. Wahn and Mr. Lambert.

• 1145

Mr. Irvine: What length of time do you expect we might have to sit? Is this something that could be cleaned up perhaps in

one day if we put a full day in on it, that is, three sittings?

The Chairman: It is up to the Committee. I doubt it. These are very complex. I do not suggest that you will find it necessary to study each individually numbered item but we will want to hear from officials of the departments of Finance, Trade and Commerce, and probably Industry dealing with the major sectors, and individual members on behalf of their areas may want to ask about particular items after that because of the particular impact. I think we could not realistically expect to complete this in one day. I think we could probably do the job in, say, three days. I do not think we need the full week; I think we could do it on Tuesday, Wednesday and Thursday, and Friday morning, but I think a one day objective would be unrealistic. Also we may want to hear from the Minister.

Mr. Irvine: Then, it would be at least a three-day deal, sitting all day.

The Chairman: Sitting mornings and afternoons. It may take less; we may find that the evidence goes rather quickly. It may be that if we start on Tuesday morning and we feel we have done sufficient by Wednesday afternoon, we can adjourn.

Mr. Irvine: If you feel it is imperative that we do this before the House opens, as Don said a moment ago, I think it is our responsibility to go along if this is a necessary thing. On the basis of that, if you can get a quorum to come back I think I could arrange to come back; but I know it is going to make it difficult for people who have arranged holidays. Whether you can get a quorum to agree to come back or not is another question.

The Chairman: That is why I was proposing that we could meet before the commencement of the House; I did not check around beforehand, but I assumed that those who had made arrangements to go away, or to spend time in their ridings, likely would be coming back by that time. Perhaps I am wrong, but I felt that this proposal would be one that would cause the least inconvenience to all concerned.

Mr. Irvine: If we were to get credit against our attendance for those days, why not? I do not want any extra pay.

The Chairman: Well, that is another matter the pros and cons of which I think are worth going into by the Special Procedure Committee. I do not think we are in a position to resolve it ourselves. I can see points of view on either side that are valid. But it is a fact that these are very complex matters and even though they go into effect provisionally I think the House of which we are an instrument has some obligation to dispose of them finally; to add certainty, shall I say, to the...

Mr. Monteith: Mr. Chairman, at the expense of other speakers may I just interject here? I may have left a wrong impression. When the Pension Committee sat a proposal was made to me as Chairman of our Committee on that subject that we should, perhaps, work towards some sort of remuneration for being present during those two weeks. I refused, so I do not want you to think it is from a money angle that I am proposing this. All I am suggesting is that there be some formal arrangement if committees are going to meet when the House is not sitting.

The Chairman: If I may interject myself here I think, in all fairness to Mr. Monteith, there are valid arguments to be made on both sides of the question as I said, especially for those who perhaps only have hotel rooms during the week, and so on. Anyway, I do not think we have to resolve it here; I think perhaps we should bring this problem to the attention of the Special Procedure Committee which is studying this.

A lot of things around here are such that actually the most active members, in a way, are at a disadvantage compared with those who are not active. It is my hope that these things can be resolved as we move along. Unfortunately, the change within the parliamentary system does not move at the pace a lot of us would like, but we still have an obligation to carry out the public business as effectively as we can, and we will just have to come up with some conclusion.

Mr. Irvine: Well, if this is necessary, if you can sell us the idea that this is necessary, I will go along.

• 1150

The Chairman: Based on my consultations with those in the government, and so on, who are concerned with this matter, I am proposing to the Committee that we do this. I cannot put it any more definitely than that. I

certainly would not be making this proposal if I did not feel it to be in the public interest to dispose of this very important matter. I might say also that by undertaking this responsibility we are perhaps setting a precedent which will be very constructive to the development of consideration of all matters of importance initially by standing committees. It is probably the first time in the history of Parliament that a major tax change, which is what this Kennedy Round change is, has been considered in detail by a standing committee of the House before major consideration by the House itself. This is a very significant thing. I think those of us—and I think this covers every one on this Committee—who have some feeling that it should be more and more a practice of this House to get our work done more efficiently, if I may state a personal opinion, should try to take steps to encourage this type of development.

Mr. Monteith: By the way, did we not consider the Bank Act when the House was sitting? That was a very important matter.

The Chairman: That is right. But I am trying to say that as far as I am aware—perhaps I am wrong—a major tariff change like this, a budget resolution, I do not think has ever been considered by a standing committee of the House before, or even after, the consideration by the whole House itself. I see Mr. Lambert is shaking his head in agreement with me. Now, if I may state a personal view, I hope that this will be a first step. Perhaps I am being unfair to Mr. Lambert. I am not saying that he necessarily agrees that we should sit when the House is not sitting. He was just agreeing with me when I said that this type of legislative change has never been considered by a standing committee. I hope that this may be a first step towards a system whereby every budget matter will be considered in detail initially by a committee of the House before the whole House considers it. I personally feel that this would be a most constructive change no matter what party forms the government in the future.

Mr. Wahn: Mr. Chairman, coming from Toronto, it will be quite convenient for me to come here and I would be prepared to come here before the House resumes sitting, if you think it is important that we should do that in order to get on with the consideration of these resolutions. Is it not true that if we did

find something wrong in these resolutions, even though they do come into force provisionally at the beginning of the year something would happen, our conclusions would have some result? This is not an idle gesture, is it, just going through these resolutions? Presumably they would not have been referred to us.

The Chairman: I would not be proposing that we sit—in fact, I would not be proposing that we hold hearings on these resolutions at all if I thought that it was simply an idle gesture.

Mr. Wahn: When it is desirable I will be prepared to sit.

The Chairman: Mr. Lambert.

Mr. Lambert: First of all, whether I live here or not I think makes damn-all difference.

Mr. Monteith: It certainly does.

Mr. Lambert: The point is that I do recognize that this question imposes a great deal of difficulty on those who live at a considerable distance, because it means additional hotel room expense as not everybody has an apartment or a house here. And I think that being a Member of Parliament is an even burden. Already there is enough inequity between those who live close by and those who live at great distances. To come back here under the circumstances, perhaps on an ad hoc basis, is I think reasonable with regard to this particular proposal. I know it has caused a great deal of difficulty to exist from the resolution those portions which will come here and those portions which would be in the normal customs tariff bill. This is one of the reasons why the bill has not been printed. It has caused a complete dismemberment of the resolution and the bill to follow. I agree with the Chairman that a precedent should be set—and I have been one of those advocating more and more that this type of action be taken—for legislation or budgetary proposals to come to committees before commitment to principle in the House. This is one concrete step,—and I think a good one, in that regard. I do not agree with Mr. MacDonald that members who sit on Committees here should do it just out of the ordinary stipend that they get. Those who live in hotels or have short-rental appointments have additional expenses. There are others who maintain a business and you cannot ask

them to sacrifice the time that they necessarily would be spending with their business between sessions. I do think that if we are going to ask members to work in between sessions then as an immediate consideration not only for this Committee but other committees, adequate steps must be taken to even out the burden; otherwise you are going to have people saying: “To blazes with it; I am not going to work on this Committee, I am going to stay away.” And it leaves those who may be gotten together, who have no great feelings one way or another whether they can come in, in a difficult position, and I do not think that is the proper spirit with which to approach our Committee work. I am prepared to come in for three or four days beforehand, although I could quite easily spend those days in my law office in Edmonton at some pecuniary advantage to me. But because I happen to live here and am quite prepared to make those necessary adjustments, I do not think as a general rule, Mr. Chairman, we have to accept that as a course of conduct. I agree with Mr. Monteith that there has to be something laid down with regard to this matter.

• 1155

The Chairman: Is there any further preliminary discussion on the general issue?

[Translation]

Mr. Clermont: Mr. Chairman, do we have simultaneous translation?

The Chairman: I think that the head of the interpreters is in the booth.

Mr. Clermont: As far as I am concerned, I am in the privileged position of being a member of Parliament who lives very close to the National Capital. I live only 30 miles east of Ottawa. However, like the other hon. members, I have my own constituency responsibilities. For certain people it seems that the fact of living very near the Capital, involves only assets and not liabilities. I feel that there are other things to be considered besides distance. However, if you feel it is preferable for the Committee to meet a few days before the session resumes I am quite ready to be present.

The Chairman: Thank you, Mr. Clermont.

[English]

Gentlemen, perhaps we have reviewed the principle sufficiently. I think it would be more in order at this time to ask someone on

the Committee to move a motion that we ask the House for permission to sit during adjournments of the House.

Mr. Macdonald (Rosedale): I so move.

Mr. Clermont: I second the motion.

Mr. Macdonald (Rosedale): The motion should include "without additional compensation".

The Chairman: Although I think that is an important issue, it is beyond our purview.

Mr. Monteith: I would agree with that. I certainly opposed it when the Pension Committee was sitting.

Mr. Irvine: Mr. Chairman, I feel in the mood to support this but I still think that it would be better to give attendance credits. I say this because I had planned a trip that particular week and if attendance credits were given then I could postpone my trip a couple of weeks.

The Chairman: You also have a very good point but I do not think this is something which can be dealt with within this Committee. Whether this would come within the attendance requirement is perhaps a matter for interpretation by Parliamentary Counsel. If it does not then perhaps I could ask informally that the procedure Committee consider special compensation in the general framework of the studies it is undertaking now with respect to Parliamentary reform.

Mr. Irvine: I do not want any special additional compensation because I am just going to have to pay it out in taxes anyway.

• 1200

The Chairman: I do not know if you want to go into it in detail. I am going to consult with Dr. Ollivier, the Parliamentary Counsel, who is here.

Mr. P. M. Ollivier (Parliamentary Counsel): I do not think it exists at the moment, Mr. Chairman. It would have to be provided by the Committee on Procedure, or something, but as I understand it that system of compensation is not in existence at the moment.

The Chairman: Thank you.

Mr. Ollivier: For instance, you could not substitute those dates for the 21 days that you are allowed to be absent.

The Chairman: I think this demonstrates how our system is really not fair at the present time to the most active members. Those who are less active somehow or other come out better off than those who are willing to be more devoted to their duties, but I think this is something which, if you like, I will informally bring to the attention of the Committee on Procedure. I think that is a means of correction of these inequities that have been brought to our attention.

Mr. Lambert: Mr. Chairman, I understand that two other committees have this in mind as well.

The Chairman: That is right.

Mr. Lambert: The point is that we must not all concentrate on that last week, which will put additional burden on the committee system, because we are hoping to gain an advantage through faster translation and faster printing. I was hoping that the Chairman would be able to show how this would speed up the receipt of the reports, because unless we have the reports of Proceedings we cannot discuss these matters intelligently in the House. However, if every other committee is going to come in and we are going to get into a logjam, then I think I would say, as Mr. Monteith has said, "Just forget about it on this occasion".

The Chairman: I think you have made a very good point. Perhaps I can add some further information. I think at the present time only one other committee is definitely trying to meet during the recess and it is my view, based on wrestling with three problems, that even if three committees met in the same week the machinery for printing and translating is such that we would be able to get our reports fairly promptly. It is when the number goes over that—and I think Miss Ballantine agrees with me—that a problem is created. It does not appear at this time that there will be three committees meeting, there will only be two, and I do not think this will create a problem, which I think is of concern to us all, with respect to the speed of printing and the availability of committee minutes. I believe Mr. Lind wants to say something.

Mr. Lind: Mr. Chairman, I will gladly come back provided we can work on this for three sessions a day and speed it up and in this way cut down the number of days we have to be here. Is it your intention to have a

morning session, an afternoon session and an evening session?

The Chairman: I was thinking primarily of a morning and afternoon session. I think that members may have to work in their offices and so on, and I think adding an evening session is only a matter of priority when we have a specific legislative deadline to meet and in all fairness to those who have criticized this suggested approach I must agree that we do not have to meet a specific legislative deadline at this time. Once we are here, if we find the subject matter so enthralling that we want to keep going into the evening we can do that. We do not need any special provisions.

Mr. Lambert: Not only are you flogging yourself, but do you have no consideration for your staff?

Mr. Lind: Certainly I have consideration for my staff, but I would like to have a few breaks during the day to use my secretary. If you sit all day and . . .

Mr. Lambert: All right. You would not be here otherwise, so I do not think there is any purpose in this. In any event . . .

The Chairman: I think we are creating an issue which is unnecessary at this time. My proposal—and I do not think we have to sanctify it—is that we meet from 10.00 a.m. to 12.00 noon, from 2.00 p.m. to 4.00 p.m. or 4.30 p.m., and if there is a general consensus at that time that we want to get together for an hour in the evening. I will not recommend it but we can decide on that at the time.

Mr. More (Regina City): Mr. Chairman, are you planning to come back on the Thursday or the Wednesday?

The Chairman: No. I would recommend that we come back Tuesday morning, and if we make very good progress we can possibly wind up Thursday morning and then go back to our respective ridings.

An hon. Member: What about those people who live in Regina or Edmonton?

Mr. Lambert: This is all very simple, Mr. Chairman, but please remember that Canada is not just the province of Ontario or metropolitan Montreal.

The Chairman: I know that.

Mr. Lambert: It is all very well to blithely say that people can come in and out but we

have representatives on this Committee from British Columbia and Mr. Ballard is from Alberta.

The Chairman: That is correct.

Mr. Lambert: You must remember it is a seven hour trip to get here from Alberta. That is one day's work.

The Chairman: That is why I do not propose we meet on Monday. I want to assure you I am trying to take that into account.

Mr. Monteith: They need an extra day to go home.

An hon. Member: It is utter nonsense.

Mr. Monteith: Go ahead and have your vote.

The Chairman: Is there any further discussion?

[Translation]

Mr. Cantin: May I express a personal view? I believe that in all fairness to those hon. members who have to come from quite a distance at least their transportation costs and living costs should be paid. If you compare their position to that of a Parliamentary Secretary who has to come to Ottawa between sessions, he has the right according to law to ask for compensation. I find it unfair for members to be called to Ottawa between sessions without being compensated for living and travelling expenses.

The Chairman: I think I should say here that even if the session is adjourned, we will have the right to be compensated for our trip in the usual way. This will continue.

Mr. Cantin: Let us say a member comes from Vancouver or Alberta. Are his travel costs to be paid, or are they not guaranteed?

The Chairman: I think they are, because even if the session is adjourned, the possibility of having travel expenses paid continues.

Mr. Lambert: Mr. Chairman, I believe that Mr. Cantin has made a very useful suggestion. I remember that when I was a Parliamentary Secretary in 1957, every time I had to come back here between sessions I was paid for my hotel and living costs. We had a per diem allowance and if this holds good for a Parliamentary Secretary, I think it could also be given to a member to pay for his extra expenses.

Mr. Cantin: In all justice, I would think so.

[English]

Mr. Macdonald (Rosedale): Mr. Chairman, I, of course, have the benefit of this allowance. I have never sought to draw on it just because I happened to come back when the House was not sitting.

My argument is the more fundamental one that what we are trying to do is to make a more efficient use of the time of the House by putting more business into committee. We can do that business more effectively if the committee sits on a continuing basis before the session starts. This is as much part of our sessional work as being here during the session.

It seems to me that the question of geography is irrelevant. The question is: Are we going to be here? Are we, or are we not going to do the work?

The Chairman: Although this aspect is of interest and importance to us as parliamentarians, I think it is going a little beyond the direct responsibilities of this Committee.

I suggest that you permit me to bring this to the attention of the procedure committee. It may be that other members will want to do that themselves. We should try to have it resolved there. I do not think we are in a position, unfortunately—or fortunately, depending on your point of view—to resolve it here. If there is no further discussion on the motion I suggest that we proceed to a vote.

All those in favour? Those opposed?

Motion agreed to.

It is my intention to present it in the House this afternoon and to ask for unanimous consent that it be proceeded with at that time.

If somebody objects we will still have time to put it on the notice paper and proceed with it on Thursday.

If the permission of the House is granted it is my intention to ask the Clerk to have us resume on Tuesday, January 16, at 10.30 a.m.

Mr. Monteith: I would laugh like hell if the house decided to meet on the 15th!

The Chairman: I suggest that we have two sessions, 10.30 a.m. to 12.30 p.m. and 2.30 p.m. to 5.00 p.m.

If the Committee were disposed to modify these hours at that time we can deal with it then.

We would start by hearing officials from the various departments concerned, with whom I have already been in contact, and who are preparing evidence relative to the resolutions.

I understand everyone has already received copies. However in case these have not been properly allocated I shall ask the clerk to arrange for other copies from the distribution office.

Mr. Macdonald (Rosedale): Mr. Chairman, although there is an office consolidation of the customs tariff relative to these items it may be that you should ask the Department of National Revenue if there is any additional information available.

We may even need an office consolidation of the customs tariff as a whole, so that we can fit it into the over-all context of the customs tariff.

• 1210

The Chairman: I will ask the Clerk if some preliminary material of that sort can be distributed. As we know, the entire customs tariff is a very bulky document, although some of us have copies. I think we can look into that. It would be useful to have it before us for purposes of comparison. I presume that is one of the ideas behind your comment.

I would now like to move to another area of arrangements for these rather complicated hearings, and that has to do with dealing with witnesses from the public sector, and by "public" I do not mean the government sector but witnesses from the general public. Undoubtedly there will be people who will want to make comments. I propose to the Committee that we adopt a set of rules which would be rather similar to those we used for the Bank Act. Those who wish to appear may signify their desire by a certain date. We also ask that briefs be submitted in writing in sufficient time so that they may be distributed beforehand in order that we can deal with this matter in an orderly way. I am sorry I did not obtain copies of these rules for everyone. Perhaps Miss Ballantine could distribute copies now. In the meantime I will read these rules so that we can refresh our memories on them to see if they are relevant to what we have in mind. This is the special

procedure we passed with respect to hearing briefs on the Bank Act. They read as follows:

(a) Organizations or individuals wishing to present briefs in person are required to provide 50 copies in English or French for use of the Committee not later than 12:00 noon,

And a date was fixed:

November 1, 1966;

(b) Briefs should be sent to: Miss Dorothy F. Ballantine, Clerk of the Standing Committee on Finance, Trade and Economic Affairs, House of Commons, Ottawa, Ontario;

(c) In order to give members the opportunity of prior study, briefs will be distributed in advance of the appearance of the witness;

(d) At the meeting the witness will be asked to summarize his brief rather than read it in full before the Committee proceeds to questioning;

(e) Briefs shall be regarded as confidential until presented before the Committee;

And so on. Then:

(f) The Committee reserves the right to decide whether an organization or individual submitting a brief will be invited to appear or whether his brief will be considered by the Committee simply in written form;

(g) Each brief shall be printed as an appendix to the Minutes of Proceedings and Evidence of the day on which it is presented;

(h) The Committee shall cause to be be printed—

Then there is mention of the number of copies in English and French of the Minutes of Proceedings and Evidence; 1500 copies in English and 700 copies in French. Then it goes on to say;

(i) The Committee will proceed in three stages:

(i) explanation and clarification of the legislation by government officials;

(ii) submissions by associations and individual members of the public who have indicated they intend to submit briefs;

(iii) detailed examination of the legislation by the Committee and general debate;

And finally:

(j) A copy of the foregoing resolutions of the Committee shall be sent to each witness at the time that he indicates his desire to appear before the Committee.

It would seem to me, subject to certain modifications that this general approach is relevant to what we have to do. The comments made by outside witnesses are apt to be complex and we should have an opportunity to study them. I think we should have a closing date by which interested groups should signify their desire to appear so that we will be able to organize our schedule of hearings. Also, we should reserve the right whether we will hear people in person or study their briefs in written form.

Finally, as we are really considering the subject matter of the resolutions rather than the resolutions themselves, that rather than proceeding in three stages we proceed in two stages. This is all that might be necessary. Do the members of the Committee have some comments to make on my general suggestions about procedure?

Mr. Lambert: It may be that most of the people who are interested in appearing before the Committee have already made submissions to the Minister during the course of the past several months.

The Chairman: I think that is likely.

Mr. Lambert: Therefore the time need not be as lengthy as that which was allocated for the consideration of the Bank Act. It is my view that we should know the name of everybody who intends to appear by at least January 12, the Friday preceding the first extraordinary meeting of the committee.

Mr. Cantin: The twelfth.

The Chairman: Twelve noon, January 12?

Mr. Lambert: Yes; I think that would be a suitable time for them to have their names in. We need not have the briefs precisely that day—Well, yes, perhaps we should.

• 1215

An hon. Member: We would then have a chance to look at them.

Mr. Lambert: Yes; both briefs and names.

The Chairman: You suggest that both briefs...

Mr. Lambert: Mr. Chairman, we may be able to get on with some of them during the course of that week.

An hon. Member: Yes; that is right.

Mr. Lambert: If the examination of the officials and so forth is as rapid as might be hoped we may perhaps even be able to schedule one or two of the principal witnesses during that first week.

The Chairman: If something unusual arises we can always, for a good reason, grant relief from this rule, as was done during the Bank Act.

An hon. Member: If we go on beyond the week-end we can sit that week.

The Chairman: Perhaps we could have some further comment on this very important point about the final day for receiving briefs and/or notice. Does anyone have any further comment?

Mr. More (Regina City): Mr. Chairman, is it anticipated that the briefs that will be received now will be different from those presented earlier to the Minister of Finance?

The Chairman: We have no way of knowing. However, if a particular body, or individual firm, wishes to submit the same brief, which may, initially, not have been made public, I am sure we will not object.

Mr. More (Regina City): Yes; but what purpose will it serve if it has already been rejected by the Minister and his officials?

The Chairman: We do not know whether or not the brief has been rejected. And it may be that additional points of view have been developed as people have studied these very complex changes.

Mr. More (Regina City): That would really be the only substance...

The Chairman: It may be that it would be constructive not only from the point of view of reorienting some of these changes, but, what is more important of serving to inform the industries or firms concerned what exactly are the implications.

Though I did not mention it, what I had in mind was that either on the spot, or after hearing them, we would invite the officials to comment on the specific briefs. In my own view, that would be very constructive. A particular firm or industry may be under a

certain misapprehension, or may have overlooked some possible benefit which would compensate for something about which they are concerned. That may not be the case, but we should not overlook the advantage to having this opportunity.

Mr. More (Regina City): That would make public the arguments pro and con.

The Chairman: That is correct. The meetings will be open to the public, and we expect we will have our usual complete coverage from the press. In that way we hope the general public will benefit.

I think Mr. Lambert's proposal should be considered; that is, that the closing date for reception of briefs be January 12, 1968. Would you care so to move?

It is proposed that the closing date for reception of briefs be January 12, 1968.

Mr. Lambert: I so move.

Mr. More (Regina City): I second the motion.

Motion agreed to.

The Chairman: Is there any further discussion?

Mr. Noël: Mr. Chairman, I note that the briefs have to be submitted in either French or English. For those who cannot read English...

The Chairman: ... or French...

Mr. Noël: ... or French—*vice versa*—would it not be preferable to have all the briefs in French and English?

The Chairman: Perhaps I should deal with that point. Our objective is to have them available in both languages, but it may be rather difficult for an individual firm in, say, the middle of Alberta, or in the middle of Rimouski, to find translation services. I think it is more reasonable to permit briefs to be submitted in the language most easily attainable by the firm. We will have to...

Mr. Noël: We would have somebody translate them here?

Mr. Clermont: If it should become possible to call some witnesses during the week that we are to be here and you receive those briefs only in English or in French you may have difficulty in having them translated in time.

The Chairman: My own view is that it is not reasonable to expect individual firms, in areas speaking primarily one language or the other, to have them translated. They do not have the facilities. It should be our obligation to have the services available to translate them. It may be that there will be technical problems. If it is the wish of the Committee, we may have to postpone consideration of those briefs until they are available in both languages.

• 1220

Mr. Lambert: Mr. Chairman, surely the summary that is made by the witness who is presenting the brief is then made available to the member in translated form if he has encountered any problems, and he then has an opportunity to clear up any, shall we say, difficulties. It applies both ways; if a brief is presented entirely in French, as it may be, then the English-speaking members who do not have sufficient command of that language are in relatively the same position as others. It is not the ideal situation, but we have to make the best of it if we can. Certainly I do not think that we can put the burden of translation upon the persons submitting briefs.

Mr. Clermont: Mr. Lambert, according to your experience, how many briefs have been presented in French only, and by whom?

[Translation]

Mr. Lambert: To be quite honest, I do not know. However, there are some in French only.

[English]

Mr. Clermont: By whom, then? I do not remember any brief having been presented in French only for the Bank Act revision.

[Translation]

Mr. Lambert: The only witness was Mr. Latulippe. Mr. Latulippe has read his ...

[English]

Mr. Clermont: I do not think there was any. But I asked you, how many were there according to your experience?

The Chairman: May I make a proposal that may possibly resolve this. I think I will ask Miss Ballantine to begin making inquiries immediately of the Translation Bureau to see that we have some priority on transla-

tion services because the House will not be sitting and I will attempt not to schedule any hearings of briefs where we do not have proper facilities available in both languages. We will now proceed. We have dealt with item (a). Are there any comments on further items of the draft resolutions? What about the number of copies to be printed of our Minutes in both official languages?

Mr. Lambert: Mr. Chairman, are you going to present this as a summary in the House, because ...

The Chairman: Oh no, this is our own.

Mr. Lambert: ... the authority to print a number of bills is a report into the House.

The Chairman: No, this is not the bill; these are the copies in English and French of the Minutes of Proceedings and Evidence.

Mr. Lambert: Well, that is still a question of resolution to be adopted by way of a report.

The Chairman: Oh, I see. We already print 850 in English and 350 in French, which may be adequate. These resolutions are not for the concurrence of the House; these are our own internal resolutions.

Mr. Lambert: You have no authority within your own internal resolutions to print a number of papers; that must come from House authority.

The Chairman: We did it for the Bank Act. There is a final resolution of the Committee which was used during the bank Act with respect to the stages in which the Committee would consider the matter before us. Now, of course, there is an obvious change where we are discussing the subject matter of the legislation rather than the legislation itself. Do you want to remain with the three stages that we used during the Bank Act, and subject to the modification, refer to subject matter of the legislation rather than legislation?

Mr. More (Regina City): Could we modify it if we found it useful?

Mr. Lambert: I think it is easily adaptable. We do not have to dot the "i's" and cross the "t's" here.

The Chairman: Then we agree to change it to say: Subject matter of legislation. Are we

prepared to adopt these resolutions for our own internal procedure, subject to future modification?

Mr. Lambert: I so move.

Mr. More (Regina City): I second the motion.

Motion agreed to.

The Chairman: Is there anything further with respect to our methods of procedure on these resolutions?

Mr. Lambert: Are you going to issue an appropriate press release today?

The Chairman: Yes, I am.

Mr. Lambert: Calling for briefs?

The Chairman: Yes. If there is no further business, we stand adjourned, subject to the concurrence of the House, until January 16, 1968, at 10.30 a.m., and a Merry Christmas and a Happy New Year to you all.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1968

STANDING COMMITTEE

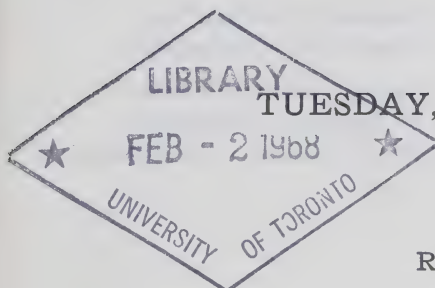
ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13



RESPECTING

Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round)

WITNESSES:

The Hon. Mitchell Sharp, Minister of Finance; *From the Department of Finance:* Mr. C. A. Annis, Director of Tariffs; *From the Department of Industry:* Mr. J. J. McKennirey, Director, Machinery Branch.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hees,	McLean (<i>Charlotte</i>),
Beaulieu,	Irvine,	Monteith,
Cameron (<i>Nanaimo-</i>	Laflamme,	More (<i>Regina City</i>),
<i>Cowichan-The Islands</i>),	Lambert,	Noël,
Cantin,	Latulippe,	Thompson,
Comtois,	Lind,	Tremblay (<i>Matapédia-</i>
Flemming,	Macdonald (<i>Rosedale</i>),	<i>Matane</i>),
Gilbert,	Mackasey,	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

Acting Assistant Clerks:
F. Despatie (*Printing*),
M. A. Measures (*Documents*).

ORDERS OF REFERENCE

TUESDAY, December 19, 1967.

Ordered,—That the Standing Committee on Finance, Trade and Economic Affairs be granted leave to sit during adjournments of the House.

WEDNESDAY, December 20, 1967.

Ordered,—That the name of Mr. Thompson be substituted for that of Mr. Johnston on the Standing Committee on Finance, Trade and Economic Affairs.

Attest:

ALISTAIR FRASER,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

TUESDAY, January 16, 1968.

(14)

The Standing Committee on Finance, Trade and Economic Affairs met at 10.40 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cantin, Clermont, Comtois, Gilbert, Gray, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Mackasey, More (*Regina City*), Thompson, Wahn—(13).

In attendance: The Hon. Mitchell Sharp, Minister of Finance. *From the Department of Finance:* Messrs. R. Y. Grey, Assistant Deputy Minister; and C. A. Annis, Director of Tariffs.

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff Resolution (the Kennedy Round).

The Minister made a general policy statement regarding proposed changes in the customs tariff resulting from the Kennedy Round of tariff negotiations, and was questioned.

The questioning continuing, at 12.37 p.m. the Committee adjourned to 2.30 p.m. this day.

AFTERNOON SITTING

(15)

The Committee resumed at 2.45 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Comtois, Gilbert, Gray, Hees, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Mackasey, More (*Regina City*), Thompson, Wahn—(13).

In attendance: The same as at the morning sitting and Messrs. J. J. McKennirey, Director, Machinery Branch; J. P. Reny, J. H. O'Connell and J. C. Stavert, all of the Machinery Branch, Department of Industry.

Questioning of the Minister was resumed and concluded and at 4.05 p.m. the Minister withdrew after having been thanked by the Chairman on behalf of the Committee.

The officials of the Department of Industry were called and Mr. McKennirey made a statement on the machinery programme and was questioned. Mr. Annis also answered questions.

The questioning continuing, at 5.08 p.m. the Committee adjourned until 10.30 a.m., Wednesday, January 17, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, January 16, 1968.

The Chairman: Gentlemen, I think we are in a position to begin our meeting. For the moment it will be of an unofficial character, subject to the usual reservations.

As you know, our terms of reference are to deal with the subject matter of the tariff resolutions involving changes in our tariff arising out of the Kennedy Round negotiations.

I would like to welcome everyone back. If it is any consolation to the members who are now here and to the others who are on their way, I should tell you that your Vice-Chairman Mr. Gaston Clermont and I, have been here for some days working with some of this group of officials in helping to make the arrangements and also working with our Clerk, who has been able to distribute quite a bit of material, and I would like to thank everyone who participated in the arrangements for the efforts that were put forward.

As you know, at our last meeting we agreed that our hearings would proceed in three stages. First we would hear from ministers and officials; second, from members of the public who filed briefs by January 12 and finally, of course, will be the preparation of our report to the House.

Now, I think I should say something about the first part. We will be opening, as you know, with the Minister of Finance, and following will be the Minister of Trade and Commerce who will begin his testimony at 2.30 p.m. tomorrow. If our questioning of Mr. Sharp and his presentation conclude before we are able to hear from Mr. Winters, we will proceed with one of the officials who is ready to give evidence.

Senior officials of the departments of Finance, Trade and Commerce and Industry will be presenting evidence on the details of the tariff changes and related new programs as follows: from the Department of Industry, Mr. J. J. McKennirey, Director of the Machinery Branch on the machinery program; Mr. H. H. Wright, Industrial Policy Adviser on the Industrial Assistance Program; from the

Department of Finance, Dr. C. A. Annis, Director of Tariffs, will present evidence to us in a more detailed way of the actual changes in the tariff itself, and I think he will be grouping his evidence with respect to particular products and commodities; in Trade and Commerce we will be hearing from Mr. M. Schwarzmann, Assistant Deputy Minister, who will be dealing with the export benefits that were negotiated as part of the whole package, the concessions or tariff changes with respect to our own tariff we are hearing about particularly during these hearings.

Also in attendance will be Mr. R. Y. Grey, Assistant Deputy Minister of the Department of Finance; Mr. Loomer and Mr. Catellier of the Tariff Division of that Department; Mr. L. F. Drahotsky, Chief, Commercial Policy Division, Department of Industry; Mr. T. M. Burns, Director, Section II, Office of Trade Relations, and Mr. R. M. Esdale, Chief, Grain Division, Department of Trade and Commerce.

Also present as observers will be a number of senior officials of the departments of National Revenue; Agriculture; Energy, Mines and Resources; Consumer and Corporate Affairs, and Fisheries, and I think it would be in order if I reported to you at this time those that have filed briefs by the close of January 12, that is to say, last Friday.

Briefs have been filed by the Canadian Importers Association; the law firm of Gowling, MacTavish; the Machinery and Equipment Manufacturers of Canada; Electrohome Limited; Canadian Farm and Industrial Equipment Institute; Canadian Manufacturers Association; the Consumers Association of Canada; the Chemical Producers Association of Canada, and the Canadian Salt Company.

Now, before calling on Mr. Sharp, are there any comments on our proposed order of business? If not, I will ask Mr. Sharp if he is ready to make his opening statement.

Hon. Mitchell Sharp (Minister of Finance):
Thank you, Mr. Chairman.

The Chairman: We are now in a position to proceed officially, and the record will so note.

Mr. Sharp: Mr. Chairman, members of the Committee, if it is acceptable to the Committee, I would like in my statement to explain how the Kennedy Round negotiation proceeded, to re-state our basic policy objectives in these negotiations, and how we followed through to these objectives.

It all began, as the Committee knows, on the initiative of the late President Kennedy who proposed a massive attack on international trade barriers, and persuaded the Congress to authorize negotiations on an across-the-board basis of a 50 per cent cut in tariffs with few exceptions and with even greater cuts in some cases.

• 1045

In May 1963, Ministers of the GATT member countries agreed that the negotiations would proceed on the basis that as far as possible all tariffs should be cut by 50 per cent, with the barest minimum of exceptions. This objective was achieved in respect of a wide range of industrial and manufactured goods imported into the main trading nations. The 50 per cent reduction was the working hypothesis of the negotiations, and right at the outset it was agreed by the other participating countries that it would not be appropriate for Canada to proceed on such a basis. I had the privilege of representing Canada at the GATT meeting that launched the Kennedy Round, where it was agreed that we should offer concessions equivalent in terms of their impact on trade to those offered by the other participants.

We adopted this selective, item-by-item approach for two reasons: first, a large proportion of our export trade consists of food-stuffs and raw materials for which tariffs are generally low, whereas our imports are largely semi-processed and fully-manufactured goods, which are subject to relatively high rates of duty. A 50 per cent cut in the level of our tariff would have resulted in a sharp increase in imports without a comparable increase in exports. Second, this selective approach enabled us to use the Kennedy Round to help rationalize our tariff structure.

Within this framework we were guided by certain broad considerations in formulating our tariff offers:

First, we wanted to make certain that there was a reasonable overall balance, in practical

trading terms, between tariff concessions we got and those we granted. Thus, every effort was made to secure every worthwhile tariff reduction offered by other countries but, of course, we gave no more than we got.

Second, we took account of how our tariff concessions and the export benefits we obtained could contribute to the balanced growth of the Canadian economy. We wanted particularly to help our secondary industries to break out of the confines of our small national market. This we could do by getting reductions in other countries' tariffs and by cutting the costs of producing in Canada for those new and expanding markets. That is why our tariff cuts on raw materials, semi-finished goods and on production machinery are an important part of the Kennedy Round settlement for Canada.

Third, we sought and secured a reasonable degree of balance and reciprocity for each major sector of our economy and for each region.

Fourth, we wanted to ensure that through the Kennedy Round, Canadian consumers would benefit from greater international competition.

I would now like to comment on the outcome of the negotiations, on the tariff concessions we made and on what we received.

The tariff reductions made by Canada cover about \$2.5 billion worth of imports, of which about \$2 billion come from the United States. On these imports, we have calculated that we are cutting the average incidence of our tariff by about 25 per cent. Reductions will be found in virtually every sector of the Canadian tariff. It is right, in my view, that in a negotiation of this unprecedented scope we should examine the scope for reducing each tariff item, just as our trading partners were, under the rules, obliged to consider reducing each of their tariff rates.

As I mentioned earlier, the Kennedy Round provided us with an opportunity to rationalize the structure of the Customs Tariff. We followed what, in my view, is the right policy for Canada; that is, a policy of moderating protection. Thus we scaled down some of the excessively high rates in the tariff so that, by 1972, the rates of duty higher than 20 per cent *ad valorem* will be exceptional apart from the rates for a few industries, such as textiles.

These industries were left with somewhat higher protection because it was evident

either that greater reductions on their products would create intolerable problems of import competition, and thus unfair burdens of adjustment, or that other countries were not offering meaningful tariff reductions on the same products.

• 1050

In general, reductions on final products, were accompanied by reductions in the cost of producing those products, arising from reductions in the rates on intermediate products and on capital equipment. Because of this, many manufacturers for which the nominal rate of tariff protection on their products has been reduced will find that there has been relatively little decrease in their effective protection; that is, the protection on the actual value added in production in their factories.

When the Kennedy Round results are fully implemented, rates of duty on final manufactures will generally be about $17\frac{1}{2}$ per cent to 20 per cent as compared with the $22\frac{1}{2}$ per cent to 25 per cent rates now in effect. The rates on intermediate products will range downward from 15 per cent as compared with the present rates of up to $22\frac{1}{2}$ per cent. Many basic materials will be free or close to free.

Perhaps I might comment, in this connection, on the new tariff arrangements production machinery. A new tariff item, 42700-1 was negotiated, with rates of $2\frac{1}{2}$ per cent British Preferential and 15 per cent Most-Favoured-Nation, covering production machinery and other producers' equipment. This item replaces 18 existing tariff items, which had rates ranging up to $22\frac{1}{2}$ per cent depending on whether the machinery was held to be of a "class or kind" made in Canada. This new tariff item includes a provision for the remission of the duty when this is in the public interest and when the machinery imported is not available from production in Canada. It is this tariff item, as it appears in these resolutions, which is the essence of the "Machinery Tariff Program", the details of which were announced in the House on December 12th by the Minister of Industry.

Not surprisingly, the negotiation of this new arrangement was particularly difficult and protracted. In the end our trading partners accepted the proposal as a valuable concession, on the understanding that there would be an overall reduction of duty as a result of the remission of duties on machinery

not available from Canadian production. Canada undertook that the average annual incidence of the Most-Favoured-Nation duty under the new tariff item will not exceed 9 per cent. This means that at least 40 per cent by value of future MFN imports under item 42700-1 will consist of machinery held to be not available from production in Canada. During recent years, about sixty per cent of the machinery imports which will be covered by the new tariff item were ruled as being of a class or kind not made in Canada and, in 1966, the figure was closer to 65 per cent. Accordingly, we do not expect any difficulty in meeting this commitment.

That is all I would like to say at this stage, Mr. Chairman, about the scope of the tariff undertakings given by Canada. Perhaps I can now comment briefly on the other side of the question and look at what we received in the way of tariff concessions from other countries, and I am sure Mr. Winters will supplement this when he appears before the committee.

The export benefits obtained by Canada from its agreements with major trading partners cover, including wheat, over \$3 billion of our current export trade. It is significant that in such markets as the United States and European Common Market the average level of tariffs for manufactured goods will be below 10 per cent when the results of the Kennedy Round are implemented. As a result of the across-the-board tariff cuts made by our major trading partners, export opportunities will open up for the first time for a very wide range of manufactured goods. And it is not only our manufacturing industries that will gain; the scope of the negotiations was such that nearly all commodities including the products of fisheries, agriculture, mining and extractive industries will benefit from the lower barriers facing our goods in export markets. And, of course, the benefits will extend to all regions of the country.

• 1055

Let me say a word now, Mr. Chairman, about "staging". The majority of the tariff reductions made by Canada in the negotiations are to be introduced on the instalment plan over a four-year period ending on January 1, 1972. Two alternative general rules were agreed by the trade conference. The first was that one-fifth of the total rate reduction would be introduced on January 1st of each year from 1968 to 1972. Alternatively, two-fifths of each reduction could be introduced

on July 1, 1968 with the remaining three-fifths being implemented in three equal amounts on January 1, 1970, 1971 and 1972. We, as well as the United States, agreed to proceed generally according to the first rule. For some products the effective date for the whole of the concession granted is January 1, 1968. These include machines classified under item 42700-1; cigarettes, cut tobacco and alcoholic beverages; certain items in the following sectors—oilseeds, oilcake and vegetable oils, wire and wire products, lumber and lumber products and some tropical products. This also applies to a few other commodities where staging was considered undesirable or impractical—such as certain agricultural and processed food products and articles for use by Canadian manufacturers. Changes in the chemicals and plastics schedule will be introduced in a single step on July 1, 1968 and these are not therefore covered in the Resolution before you.

I might mention, Mr. Chairman, that after the results of the Kennedy Round were made public, a number of Canadian producers made their views known to us regarding the staging of tariff reductions on products of interest to them and these views were taken into account in formulating the government's proposal as to whether or not a particular tariff concession should be staged.

While on this matter of timing, I should mention one other aspect of the resolutions before you. In order to safeguard Canada's position in the event that one or more of our trading partners should not be in a position to implement their commitments in accordance with the agreed timetable, it is proposed in these Resolutions that there be authority for the postponement by Order in Council of the effective date of our concessions, in whole or in part.

I have already said that, in my view, there is no doubt the net gains to Canada from the reductions in other countries' tariffs and from cheaper raw materials and intermediate products far outweigh any adverse effects on Canadian producers whose protection has been reduced as a result of the negotiations. This view is reinforced by the fact that we have received relatively few adverse comments about the proposed reductions in our tariff in the six months since the results were made public. However, we have all along realized that the changing pattern of trade and production that will emerge in the next few years, as the phased tariff reductions

take place, will involve transitional problems for many firms if they are to take advantage of the new opportunities for improved efficiency and productivity. In my Budget Speech on June 1st, I pointed out that it was the Government's intention to make available suitable measures to assist in making the necessary adjustments.

The Prime Minister announced the introduction of an Adjustment Assistance Program relating to the Kennedy Round on December 27th. The principal features of this program are: First, an offer by the Government of insurance of the major share of the risk of loss on industrial adjustment assistance loans made by private lenders. Second, direct Government loans for any cases of real hardship. Third, technical assistance, on a shared-cost basis, to manufacturers in preparing adjustment proposals for the purpose of improving their production, managerial, marketing and financial operations. This program is designed on the one hand to help expand secondary industry and make it more productive, and second, to assist the small minority of companies who may be hurt by Canadian tariff changes. It has been built on the experience gained from the automotive adjustment assistance program, but will be administered by a separately constituted board. I might also mention that while it would clearly be beyond the scope of adjustment assistance to provide for the financing of general expansion of Canada's manufacturing industries, the Government will maintain a close watch on the impact of the Kennedy Round tariff changes on all segments of the economy and will be prepared to consider, if necessary, further appropriate and workable programs consistent with the one I have just outlined.

Another very important element of the Kennedy Round package for Canada is the new code to govern the application of anti-dumping duties. The new convention requires that before anti-dumping duties can be applied, there must be a positive decision by the national authorities that there has in fact been injury or a threat of injury to a domestic industry. As I have mentioned on previous occasions, this requirement will not preclude Canada from applying anti-dumping duties quickly and effectively when dumping threatens injury to Canadian producers. In agreeing to adhere to the new code, Canada will benefit from some major improvements in United States anti-dumping procedures, which in the past have given rise to a great

deal of harassment to our exports to that market.

The new convention lays down rules within which all signatories must operate. Canada will need new legislation by mid-1968 to conform with the code and this will provide us with an opportunity to modernize our anti-dumping legislation, which remains little changed from the original law of 1904.

• 1100

Because of the importance of the anti-dumping provisions in our tariff system, I felt that it was important to obtain the view of interested parties on the kind of legislation Canada should adopt within the terms of the new convention. A special committee under the Chairmanship of Mr. George Glass, the First Vice-Chairman of the Tariff Board, who is here this morning, was established to receive these representations. I might mention that the business community has taken this opportunity to make its views known and a number of valuable proposals and suggestions were put before the Committee. The Committee has now completed its hearings and we are in the process of drafting the proposed statute. I hope to bring our proposals before the House at an early date. That will provide an occasion for a detailed examination of this important issue.

Thank you Mr. Chairman.

The Chairman: Thank you Mr. Sharp. Before calling upon Members of the Committee for any questions they may have, I think we should recognize that a number of the members here have braved rather adverse weather conditions to be with us and other members are actually on their way and expect to be with us this afternoon. Members who have questions or comments will signify in the usual way. I recognize Mr. Clermont, followed by Mr. Lambert and Mr. Macdonald.

Mr. Clermont: Mr. Chairman, what will be the line of questioning allowed by the Members of this Committee? Have you any suggestions?

The Chairman: I think we would be in order in receiving questions or having discussions acceptable by the Chair if this were a Committee of the Whole House. At the same time, we should keep in mind two things. First of all, we have senior officials whom we can question directly on the details of the various programs alluded to by the Minister and, of course, they will be following the

Minister and Mr. Winters. In fact some may be heard even before Mr. Winters if we proceed rather quickly. Secondly, even though it is understood that the Chairman of the Committee of the Whole House permits quite a degree of latitude in discussions and resolutions of this type, we are, in fact, bound to keep in mind that we are considering a subject matter which deals basically with changes in the Canadian tariff and obviously we have to look at that in a wider context. I think we should adopt some sense of responsibility in our approach to the questions. I do not think I need to say anything more at this time.

Mr. Clermont: To whom will we direct our questions, Mr. Chairman, about machinery and equipment policy? Will the Minister of Industry or one of his officials be here?

The Chairman: I think the best thing to do if we are dealing with questions regarding a broader policy and which you feel would be more appropriately directed to the Minister, is to direct them to the Minister. If the Minister feels we should reserve these questions for more detailed consideration by the officials, he could so indicate or I might express my own view as Chairman. But I do think, since we have the Minister with us and because of his capacity he can deal rather freely with the broad policy aspects, we should take advantage of this opportunity.

[Translation]

Mr. Clermont: Here is my first question, Mr. Chairman. It is directed to the Minister of Finance. Mr. Minister, during the negotiations which resulted in the Kennedy Agreement on July 1, 1967, during those negotiations, a committee was set up which enabled Canadian manufacturers in all three sectors of our industry: primary, secondary or services, to make representations before this Committee in order to provide our negotiators in Geneva with all necessary information.

• 1105

[English]

Mr. Sharp: Yes, Mr. Chairman, I was the Minister of Trade and Commerce at the time and we established a committee to which we invited all interested parties to make their views known in advance of the negotiations. We made it quite clear that these negotiations would be of far-reaching scope, that every tariff item was a possible target for reduction

in the negotiations and that committee received, I suppose, hundreds of representations both written and oral. Never before, I believe, was so much opportunity given to industry to express its views on any tariff negotiations and this is understandable because never before had there been a tariff negotiation of such broad scope.

[Translation]

Mr. Clermont: But during the negotiations, Mr. Minister, were the companies which made representations to the committee by sending briefs or otherwise kept well informed on the development of the negotiations? Or were they placed before a fait accompli after the signing of the agreement?

[English]

Mr. Sharp: Perhaps I should say this Mr. Chairman. In negotiations of this kind governments are negotiating with governments and they are negotiating the best deal that they can make in over-all terms with other countries. We were seeking the maximum reduction in other countries' tariffs and we tried, of course, in a negotiation like this to give up no more than was necessary in order to obtain these concessions. Industry was not privied nor were they acquainted with the details of each stage of the negotiations because that would have been inappropriate. This would have been contrary to the principles upon which such negotiations can be conducted. However, we did consult very carefully with industries, knowing in our own minds the objectives we had and also being aware of the concessions that were being requested by other countries in our tariffs. I can assure you, Mr. Chairman, we consulted very closely with all the industries that we knew were going to be affected, but we could not, of course, give them any undertakings about the final outcome. That would have been quite wrong. The government had to take the responsibility for a negotiation of this kind and has to defend the deal it made both to those affected and the general public.

[Translation]

Mr. Clermont: Mr. Chairman, if in some sectors, Canada's secondary industry is considered to be hurt because of the Kennedy Round Agreements, will the Adjustment Assistance Program be the remedy?

[English]

Mr. Sharp: The whole of this Kennedy Round is being handled on a transitional basis.

The very fact that the reductions are to be staged over a period of five years gives an opportunity for industry to adjust itself. The Prime Minister announced a system for facilitating that adjustment by giving the industries who would be affected, both in terms of possible damage or in terms of their adjustment to increasing opportunities, a preferred position in obtaining financing to make that transition. When one considers, as I have pointed out here, the limited scope of the reductions involved I believe it is fair to say that the transitional problem for Canadian industries is very much less and very much less severe than is the transitional problem for practically all the major trading countries in the world.

Mr. Clermont: I understand, Mr. Minister, that the apprehension of our secondary Canadian industries is not for the first year but when it reaches the final stage by 1972.

Mr. Sharp: Yes.

• 1110

Mr. Clermont: In your remarks and in the Prime Minister's press release regarding the transition period you mentioned that it will be mostly the small secondary firms that will be hurt. You said that in the technician field they may be out up to 50 per cent and if they cannot obtain loans from banks or other firms, the government would make loans directly to them. I understand, at present, your department is conducting negotiations with the banks.

Mr. Sharp: That is right.

Mr. Clermont: Speaking about negotiations—whether with the banks, the government or other companies—what will be the rate of interest on those loans? Will it be at the market rate or will there be a special rate? In your press release you mentioned it would be mostly the small firms that would be affected and if that is the case, their budgets will be very heavily taxed if the interest is too high.

Mr. Sharp: I would expect that the loans would be available at market rates of interest.

Mr. Clermont: Which could mean that it could be as high as 8 per cent.

Mr. Sharp: No, I do not think banks are charging anything like 8 per cent.

Mr. Clermont: Has the ceiling rate not been raised?

Mr. Sharp: No.

Mr. Clermont: Not yet?

Mr. Sharp: I am not certain whether it is off or not. It is probably off, now, but the prime rates of lending are not worth anything like that.

Mr. Clermont: Are you confident that the banks or other lending institutions will not remove the ceiling rate to take advantage of the situation?

Mr. Sharp: No; as I said on many occasions, I would like interest rates to be lower. But we are not going to reduce interest rates by wishing for it, nor can we do it effectively by law. What we have to do, as I have said on several occasions, is reduce the demands that governments are making on the market and, secondly, to try to change the psychology of the market. One of the principal reasons why interest rates are high today is people believe that inflation is going to continue. This is true throughout the world. It is true in the United States, true in Europe and true here. I consider that to be one of the major problems facing the world and facing this country. It is a problem that is shared by all industry—those that are affected by the Kennedy Round, those that are affected by other adverse circumstances, those that would like to expand and take advantage of increased opportunities as well as those that are feeling greater competition. I do not think that that situation can be remedied by making an arbitrary reduction in interest rates at the general expense, which is the way it would have to be done. I believe the problem is of a general character and the kind of adjustment assistance that the government is proposing to help the industries obtain the financing they could not otherwise get as well as giving them technical assistance, is far more effective than would be lending money at less than market rates at the expense of the general economy.

Mr. Clermont: Could the government and these institutions not do both? Could they not give technical help and subsidies on the interest for the small firms? I am not speaking about the ones that can take care of themselves.

Mr. Sharp: The problem we face is that the Kennedy Round reductions in tariffs are a

particular problem and one that the government recognizes a general responsibility for, because the government is making these changes as part of a general effort to improve the competitiveness of the Canadian economy, to make it more efficient, to reduce prices to consumers and to reduce the cost of production to manufacturers.

• 1115

There are other people, of course, in the economy who are suffering under adverse circumstances arising not from the Kennedy Round at all, but simply from general competitive conditions and I would doubt very much whether it would be right for the government to subsidize interest rates to that particular group. I believe it has a responsibility, however, to see that those firms can obtain the financing which they could not otherwise get to make the transition because their position has been weakened as a result of the reductions in the tariff. This is why the government has a responsibility to help them in financing. But to select that group of people as being the particular recipients of a subsidized interest rate would, I think, be a kind of discrimination against other industries who are suffering adversity for no reason that is directly associated with the government.

[Translation]

Mr. Clermont: Mr. Minister, I think that following the announcement of the Adjustment Assistance Program by the government two objections came from the public. First of all, why did this help not come sooner and secondly, why should this assistance be administered by a new commission while there is already one instead of using the present one which is administering the Automotive Adjustment Program?

[English]

Mr. Sharp: I am not quite sure whether I understood the second part of your question, but I will deal with the first part, the adjustment assistance will be available in time. Nothing very much happened on January 1. There is a very small amount of adjustment of tariffs involved and as you said yourself, sir, the problem is toward the end of the period rather than at the beginning.

On the other point about the adjustment assistance, we felt that the problem on the Kennedy Round was not exactly the same as it is in the automotive agreement. The automotive agreement is more than an agreement on tariffs. There is agreement about the

sharing of North American business and so on and the kind of problems involved on adjustment assistance to facilitate the best results from the automotive agreement is not the same and to have confused the two would have done a disservice to those who will be applying for adjustment assistance under the Kennedy Round. This is the reason that we did this. We do not believe that it will result in any waste; we do not think that there will be any duplication of government machinery.

[Translation]

Mr. Clermont: My last question then at this stage, Mr. Minister, is the following: with regard to the anti-dumping legislation or the law concerning injury and damages to an industry, I think that in some sectors of Canadian industry, in particular in the sector of agricultural products, we find a certain apprehension with regard to the injury, nuisance and damage to an industry. You mentioned that a committee was established to receive representations from concerned associations. Has your committee received any representations from the Canadian Federation of Agriculture in this matter? Concerning the anti-dumping legislation and with regard to injury or threat of injury to a product, I could give you an example among others. Let us use the example of eggs. Let us suppose that within a year or two the cost price for eggs in the United States would amount to 28 cents and that the United States have a great surplus of eggs. If they offer their eggs to Canada at 30 cents and the price of eggs in Canada at that time is 35 cents, it would then not take very long before the price of eggs in Canada would be reduced to 30 cents.

• 1120

[English]

Mr. Sharp: Well, sir, on the first question, the committee set up to examine the anti-dumping legislation has received representations from the Canadian Federation of Agriculture and from the horticultural societies. They have made representations on all these questions of dumping because I agree with you that dumping can affect agricultural products just as much as it can affect manufacturing products. However, there are two kinds of problems in agriculture that emerge quite clearly. One of them is the problem of dumping but the other is a different kind of problem which arises not from dumping, because dumping is selling abroad cheaper

than you are selling at home, but simply that these products are offered at very low prices. Now, that is not dumping and no type of anti-dumping law could affect that.

We are very conscious of this and we have been looking at a number of problems in this field recently, but it is not to be confused with the problem of dumping itself.

[Translation]

The Chairman: Thank you, Mr. Clermont. Now, questions from Mr. Lambert.

[English]

Mr. Lambert, please?

Mr. Lambert: Mr. Minister, for the purposes of clarification, am I right in assuming that the customs tariff is being reduced effective January, 1968, within the terms of the agreement under the Kennedy Round? This is being provided for in, I think, Resolution number 8, but what of 11? I take it there is authority that the enactment can make these changes effective January 1, 1968, or before July 1, 1968, and you did say in the first paragraph of your statement, on page 4:

that there be authority for the postponement by Order in Council of the effective date of our concessions, in whole or in part.

Is this provided for by Resolution number 12?

Mr. Sharp: The purpose of putting in the date of July 1 or such later day as Governor in Council may, before the first day of January, 1968, fix by proclamation was to guard against the possibility that the United States, for example, might decide not to bring the Kennedy Round reductions into effect on January 1. They have, so that particular problem has disappeared.

Resolution 12 is intended to give the government the flexibility to delay the implementation of particular items if there are particular items that other countries decide not to bring into effect. It is more selective.

Resolution 11 enables us to delay the whole of the schedule; Resolution 12 to delay particular items in whole or in part.

Mr. Lambert: Resolution 11 also gives authority with respect to other countries. It is not only with respect to...

Mr. Sharp: No; I gave that as an example as the one that concerns us most of the time.

Mr. Lambert: Within the Kennedy Round negotiations was there any undertaking by any of the negotiating countries that, notwithstanding any agreement they may make with regard to tariff, they will not bring in non-tariff restrictions which will have the effect of maintaining their present or higher tariff levels?

Mr. Sharp: This has been the object of the general agreement on tariffs and trade ever since it was brought into effect at the end of the war. We have established there a series of trading rules just to prevent that sort of development. It was recognized that unless you have such a series of rules it would be possible to vitiate the effects of any concessions of this kind simply by bringing in some control of the volume, some health rules, some change in the underlying rules affecting the movement of goods, that would offset the effect of a tariff reduction negotiated with another country.

• 1125

The general rules of GATT prevent that happening and what the general rules of GATT say is that if any country does that, then you are entitled to demand from them either another concession of equal value, or to withdraw yourself from that country a concession of equal value to it, and that is decided in the GATT whenever such issues arise.

Mr. Lambert: I am leading up to this because we have been hearing some rather disconcerting noises coming forth from the United States, and some forecasts that in this election year there may be tendencies towards stepping up a protectionist attitude in certain parts of the United States; a good number of the reports we have heard concern commodities in which Canada would be very directly interested. I was wondering, within the terms of both GATT and the Kennedy Round, whether we had undertakings from the American authorities that this would not happen.

Mr. Sharp: The only undertaking you can get from any United States authority is that that would not be permitted by the President nor by the administration. No one can commit Congress except members of the Congress themselves. However, so far most of these alarmist reports obviously have been exaggerated and none of the dire consequences that were predicted have come to pass. We

believe that the United States administration, having entered into this agreement, intends that it shall be carried out. If the administration fails to hold that position then, of course, it would be open to us, or to any other offended party to negotiate with the United States and to demand compensation or, alternatively, to withdraw concessions of value to the United States.

My own estimate of the situation is that the forces of protectionism are not going to prevail in the United States. I believe the United States recognizes the great gains to the economy of the United States that have taken place in the post-war years as the Americans have brought their tariff down from what was at one time regarded as the highest in the world till now, as I said in my opening statement, the average incidence of the American tariff is below 10 per cent. There are very few rates now that are above 10 per cent so this is tremendous progress, and I for one feel that the United States has set a great example of leadership to the world, and I do not believe that the forces of protectionism are going to prevail again.

Mr. Lambert: Do you have the same feeling of optimism with regard to the Common Market countries about non-tariff restrictions and the effectiveness of this particular agreement in so far as it concerns Canada?

Mr. Sharp: I fully expect that the Common Market will carry out its undertakings; I have no reason to think that it will not. I do not believe that in the Common Market, in relation to the external world, the forces making for freer trade are as strong as they are in the United States today, but I do believe that they will carry out this agreement scrupulously.

Mr. Lambert: What do you assess as the effect of the uncertainty of Great Britain being able to enter the Common Market? How is this going to affect this development, because we are starting out under this Kennedy Round Agreement for the next five years? How is this likely to affect Canada?

• 1130

Mr. Sharp: The British government entered the Kennedy Round negotiations prepared to make an across-the-board 50 per cent cut, and I think it is fair to say that there are fewer exceptions in the British list than in the list of any other country. That is, they adhered as strictly as anyone else to the general 50 per cent rule. Their application to

enter the Common Market does not in any way affect that particular obligation. If they join the Common Market, of course, then they adopt the tariff rules of the Common Market itself. The entry of our goods into the British market, if it becomes part of the Common Market, is affected; so are the rules affecting all other countries. But as far as the Kennedy Round is concerned, the British participated in it more fully than any other country I know.

Mr. Lambert: As a follow-up then, since we are in a transitional period with regard to the Kennedy Round amendments to our tariff structure, do you anticipate that this will be further complicated within that five-year period by Britain's entry into the Common Market?

Mr. Sharp: It will not be complicated. The GATT provides for the operation of customs unions, which the Common Market is. It provides for the operation of free trade areas, to which Britain now belongs—the AETNA group. It will affect the currents of world trade, but it will not in any way be contrary to the undertakings that Britain has given in the Kennedy Round.

Mr. Lambert: Implicit in that question, of course, is whether you are of the opinion that Britain will be able to get into the Common Market within the next five years.

Mr. Sharp: I am as uncertain about that as I am about the outcome of the Liberal leadership race.

Mr. Lambert: But should there not be a parallel as to hope? Thank you, Mr. Chairman.

The Chairman: I now recognize Mr. Macdonald. I have following on my list Mr. Wahn and Mr. Lind; if there are others who would like to signify at this time, I will add their names as well.

Mr. Macdonald (Rosedale): Mr. Minister, as I understand it, the Kennedy Round negotiation was negotiated within the GATT framework. Just as a starter, and for my own information, is the GATT still only under provisional application 21 years later?

Mr. Sharp: So I believe. The GATT has one great advantage over most international organizations; it has a very small secretariat.

Mr. Macdonald (Rosedale): I see. Is that the chief reason for not bringing it into definitive application?

Mr. Sharp: No; you may recall there was a proposal in Havana for the formation of an international trade organization. Those negotiations broke down, so they decided instead to have just a general agreement relating to tariffs and trade. Notwithstanding its provisional and rather tentative character, it has been one of the most successful international organizations that has existed.

Mr. Macdonald (Rosedale): So the inhibitions against quantitative restrictions are as binding in a practical way as if it were in definitive application.

Mr. Sharp: That is right.

Mr. Macdonald (Rosedale): Mr. Lambert referred to the relationship of these non-tariff barriers, and I have in mind not only that kind of arrangement but also voluntary quotas. To what extent did the elimination of these types of protection enter into the bargaining in the Kennedy Round?

Mr. Sharp: That is on voluntary export restrictions?

Mr. Macdonald (Rosedale): Well, changing the arrangement; we have certain arrangements for voluntary limitation of exports.

Mr. Sharp: It did not enter into our bargaining; we are not certain about other countries.

Mr. Macdonald (Rosedale): I see. And we did not seek, in a general way, reduction of quantitative restrictions by others as part of the tariff bargain?

Mr. Sharp: I am not quite sure that I understand the question.

Mr. Macdonald (Rosedale): Well, let us assume the effective protection in the other country was not by tariff, but by quantitative restriction. That, presumably, is what we should have been trying to reduce under the Kennedy Round. Was that option open to us in bargaining?

Mr. Sharp: There are two kinds of quantitative restrictions, I suppose. There is the one imposed by the importing country...

Mr. Macdonald (Rosedale): That is what I was thinking of.

Mr. Sharp: ...and the other that is imposed voluntarily by the exporting country.

Mr. Macdonald (Rosedale): Yes.

• 1135

Mr. Sharp: As far as the voluntary quotas were concerned, they did not enter into our negotiations. But of course, any quantitative restriction imposed on imports was certainly part of the bargain because that is just as effective a restraint—indeed, more effective—on the volume of our trade as the existence of tariffs themselves. But there are not very many of these quantitative restrictions outside of agriculture today, so this has not been an important factor in the negotiation of the bargain relating to industrial goods.

Mr. Macdonald (Rosedale): You proceeded on an assumption from a Canadian standpoint of reciprocal concessions. Was any consideration given, particularly in the area of the industrial components of Canadian secondary manufacturing, to the possibility of extending unilateral concessions without seeking a reciprocal reduction?

Mr. Sharp: No, Mr. Macdonald. I remember once having a discussion with a professor about this subject who was very much in favour of free trade for Canada. He felt that was a policy very much in the Canadian interest, to which I said that the theoretical argument for free trade has been accepted a long time ago. There is no one who has gone through the exercise who does not agree that theoretically free trade is an admirable concept, but I said, "It is better if you can get free trade accepted by the other countries as well as your own".

In other words, when we enter into these negotiations we are seeking freer trade, and one of the effective means of bargaining for freer trade is to offer concessions in your market in return for concessions in the other country's market.

For example, there are some who argue that the policies followed by Canada since the inception of the national policy many long years ago have not been in the interests of Canada; we have not had the industrial development that we should have had. Now, that may or may not be so, but what is certainly clear is that what has interfered most with the process of industrialization in Canada has been the American tariff on manufactured goods, and the most important thing that we gained in the Kennedy Round was the very

large reduction in the protection around American industry.

When I pointed out here that the number of tariffs around the United States, now about 10 per cent, is very, very few that is a measure of how far we have come. We have a much greater opportunity of expanding our industry because now we have access to the North American market on such terms that we should be able to compete.

Mr. Macdonald (Rosedale): If I could just put it into the metaphor of a steeplechase, we have perhaps lowered the jumps a little going into the United States, but are we not handicapping ourselves with added weight by imposing high Canadian tariffs on the components of the manufactured products? Could the argument not be made that we should have been prepared to reduce very sharply the Canadian tariff on the components going to make up the cost of the manufactured products, so we would have an even better chance of getting into the American market?

Mr. Sharp: We did achieve quite a good deal in the Kennedy Round by way of tariff reductions to improve the competitive position of Canadian industry. We concentrated on the cost of manufacture, and many of the most important reductions are made in the components, the semi-processed goods and the raw materials that enter Canada; and we got paid for that, that was the important thing.

Mr. Macdonald (Rosedale): Yes.

Mr. Sharp: If we had done that not as part of this bargain but unilaterally we would not have improved the position of Canadian industry as much as we did by combining both of these processes of using the reductions that we made in the Canadian tariff to obtain lower tariffs on the entry of our goods into the markets of our trading partners, in manufactured goods particularly.

• 1140

This process of tariff bargaining is a very curious one in a way, because I agree with you that there may be occasions when it is in the interests of Canada to take this action unilaterally, and we are not really, in making these concessions, doing ourselves harm. It may be very much in our interest to reduce our tariffs, simply from the point of view of

reducing the cost of living or making ourselves more competitive. But it is better, nevertheless, to use those concessions to reduce the tariff of another country because then you get a double benefit.

Mr. Macdonald (Rosedale): It seems to me one of the problems we have in going into this negotiation is that we cannot for example offer as a concession the market the EEC, or Britain can. We have not got a big enough carat to offer. So perhaps we should not be thinking about carats and we should just be thinking about our industrial costs.

Mr. Sharp: Except that we are one of the biggest importers of manufactured goods in the world. It is an important market.

Mr. Macdonald (Rosedale): Let us talk about a specific item; namely the item of machinery which we have talked so much about. From just looking at the items here in the proposed resolution, it appears to me that the net effect of the changes is to make the Canadian tariff protection on machinery higher, rather than lower, apart altogether from the 9 per cent escape clause.

Mr. Sharp: If that had been so, we would not have secured any concessions in return, I can assure you.

Mr. Macdonald (Rosedale): In fact, is British machinery not paying a higher tariff or will it not pay a higher tariff coming into Canada now?

Mr. Sharp: The general effect of the changes that we have made is to reduce the level of protection around the Canadian machinery industry and more particularly, however, it has been judged by our trading partners to be a valuable concession in terms of being able to sell more machinery in Canada. If that had not been so, we would have been unable to use it in bargaining. You may have noticed, I made a special point of this in my statement when I said that not surprisingly the negotiation of this new arrangement was particularly difficult to protract because some of our trading partners at the outset wondered whether this was really a concession or not. But after they had examined it closely, they came to the conclusion that we were effectively opening our markets.

Mr. Macdonald (Rosedale): Just to close this question but with respect to the unilateral or non-carat approach, has any study ever been

made of the effect on Canada's position if we did take this approach?

Mr. Sharp: Yes, I think that nearly every government entering into an international negotiation has had a good look at that proposition. The conclusion each of them has made is that it is better to get a concession in your trading partner's market in return for one that it may be in your own interest to make. This is the essence of the argument.

Mr. Macdonald (Rosedale): May I go on to another subject? Is it appropriate to ask you about food aid or should I reserve that to Mr. Winters?

Mr. Sharp: I think it would be better to ask Mr. Winters.

Mr. Macdonald (Rosedale): With respect to the convention on dumping, how does it differ from the existing arrangements under Article VI of the Gatt, except in so far as countervailing duties are concerned?

Mr. Sharp: Mr. Chairman, since we are getting into a very technical field, whether this is not a subject that should be referred to the official.

Mr. Macdonald (Rosedale): When we get Mr. Grey live, then we can go on.

Mr. Sharp: That is right!

The Chairman: He is in a position to deal with the progress that has been made in this complex topic later on in our hearings.

Mr. Macdonald (Rosedale): Would that apply also to some of the more detailed questions about items in the Schedule?

Mr. Sharp: I think that you would get more out of these hearings if you cross-examined the officials on some of these matters. It is not that I am reluctant to discuss them; it is simply that I am thinking about the use of the Committee's time.

Mr. Macdonald (Rosedale): Yes. A final question then of a general nature. The question of border taxes, was that within the Kennedy Round framework at all?

Mr. Sharp: I would like, Mr. Chairman, to make a statement on this question. I do not know whether this is an appropriate time but I would like, before I leave today, to make a statement about this because I think the matter is of some importance.

The Chairman: I think, Mr. Sharp, we should take advantage of your presence right now so that we will not have any schedule problems later in the day, if you do not mind. I think that meets the accord of the Committee.

• 1145

Mr. Sharp: I am glad to have an opportunity Mr. Chairman, to make it quite clear what Canada would do if the United States decides to levy a new tax on imports and make an allowance on exports.

The President's statement of January 1, 1968, made clear their concern, that is, the concern of the United States, over the disadvantages to American trade arising from the tax rebates on the exports of other countries and special border charges on imports. He indicated that they were planning consultations and possibly action in this field themselves. It is reported that one possibility being considered in Washington is some form of payment on exports and corresponding levy on imports. This might be taken as offsetting the burden of certain United States taxes that become incorporated in the costs of production.

Should the United States decide to apply some such surtax and allowance system, the government would consider immediately whether Parliament should be asked at once to enact a similar export allowance and import surtax, with effect to apply to trade the same day as the United States provisions. The rates of import surtax and export allowance would be designed to offset the effect on Canada's trade with the United States and, indeed, with third countries, of whatever action is taken by the United States, so as to leave Canada's competitive position unchanged. The United States authorities are already aware that this is what we would do and I am confident they would understand and accept such action.

I do not think, Mr. Chairman, that I can go into any further details at this stage, for the obvious reason that the details of the action we might take are bound to depend on the precise nature of any action which may be taken by the United States.

Mr. Macdonald (Rosedale): Just to complete my questioning on this. Is there a specific timetable set yet for American discussions, particularly with the EEC on this question of border taxation?

Mr. Sharp: I cannot speak for the United States Government but I do know that when I met with the American officials here two or three weeks ago, when they announced their new balance of payments measures, they talked about having negotiations with the EEC countries but I am not quite sure just how far they have proceeded.

Mr. Macdonald (Rosedale): What are the merits of our participating in that negotiation?

Mr. Sharp: We are not as much concerned quantitatively as the Americans are but we are concerned in principle about these European taxes. Personally, and I think I speak here for the government, we would prefer that the Europeans should not proceed with these border taxes and border allowances because we fear the possibility of getting into a series of rebates and taxes that simply provide a further encumbrance on international trade. We would much prefer to see a situation in which these practices were not followed. However, that is just a preference, and if the United States feels that it has to take measures of this kind, I have made it quite clear that the government would have to consider asking Parliament to take similar action.

Mr. Macdonald (Rosedale): Thank you, Mr. Chairman.

The Chairman: A supplementary question, Mr. Lambert.

Mr. Lambert: At this point I have a supplementary question. Some of these export incentives do exist in other countries with which Canada has trading relations and I understand for instance from representations by the canned fruit and vegetable industry here in Canada, that we are facing intense competition as a result of this. For instance, I believe in Australia, to take an example, there is a double labour-cost allowance vis-à-vis income tax, with regard to any canned fruits which may be exported. This is the type of thing that I think we are concerned about.

Mr. Sharp: There are particular problems of this kind that arise in the course of working out trading rules. I think the Europeans for example, justify the system that is becoming widespread in these countries on the basis that there are incorporated into the costs of export goods indirect taxes that were only

meant to apply on domestic production. Therefore, they have introduced a system of rebates. You get the tax back. It was not intended to apply on exports; it was intended to apply only on domestic production.

• 1150

Our system here, as you know, is not to apply federal sales tax, for example, on exports, but, of course, certain forms of indirect taxes do work their way into the costs of production. We have the same type of problem—I do not know to what degree—that the Europeans have. The Americans and ourselves depend far more upon direct taxes to raise our revenues, and one of the arguments that the Americans have put up is that just because they raise more of their revenues by direct taxes on income, whether of corporations or of individuals, does not justify this sort of discriminatory treatment on exports and imports. This is the general argument that has developed, but there are always going to be individual cases of this kind.

It is when the system becomes generalized that it begins to cause great concern, and it has caused great concern to the United States; it has caused some concern to us. But the United States, for example, points out that the European Common Markets have big surpluses on balance of payments, and here they are paying allowances on exports and making an import surcharge at the same time that the United States, which has quite a big balance of payment deficit, is not following these practices. That is why the problem has now emerged in a particularly acute form. But there are always individual cases where there are disputes about whether some sort of subsidization is going on, or some unauthorized rebate is being practised; and the GATT exists to deal with those questions. I think, on the whole, it is a fairly effective instrument for this purpose; it is certainly greatly superior to the condition that existed before the formation of the GATT, when there was just a free-for-all.

Mr. Lambert: I suppose it might be said that there may be some fingers pointed at our proposals for the adjustment assistance programmes, that this might, in effect, be an indirect form of subsidy to a firm that has some domestic market and some export market.

Mr. Sharp: All I can say, Mr. Lambert, is that the question has never been raised; no

one has ever pointed the finger at us, or at anyone else, for following these practices. This is considered to be very remotely connected with whether export or import practices are fair.

The Chairman: The United States adopted such a programme finally after legislation which lead to the Kennedy Round. Are you aware of any criticism of this sort being levelled against them?

Mr. Sharp: Never; no.

The Chairman: I will now recognize Mr. Wahn, followed by Mr. Lind.

Mr. Wahn: Thank you Mr. Chairman. Mr. Sharp, are these arrangements for tariff reductions, which are embodied in the Ways and Means resolutions, contractually binding upon Canada? Perhaps I could explain my question a little more clearly. If they are contractually binding upon Canada—and some are reductions binding upon the other negotiating partners—how is it that either the European Common Market countries or the United States can impose the so-called border taxes? Could not these reductions be completely wiped out by imposing so-called border taxes or import taxes on the full range of products listed in our Ways and Means resolution?

Mr. Sharp: Well, as I understand the situation, these border taxes are offsets to domestic taxes; they are offsets to indirect taxes imposed upon the productive process. That is the justification. They are not considered to be a violation of GATT.

• 1155

Mr. Wahn: That would be a reason, though. For example, if a Canadian manufacturer were exporting goods from Canada to the United States would a so-called border tax be payable on the importation of those goods into the United States, or is it only when the American manufacturer is exporting goods from the United States that you get your rebate?

Mr. Sharp: I really cannot answer that question yet, Mr. Wahn, because we have no idea of what the Americans are going to do.

Mr. Wahn: No.

I thought the border taxes that we are talking about involved both import duties and rebates on exports.

Mr. Sharp: Yes.

Mr. Wahn: If that is true it could make complete nonsense of this whole arrangement, could it not? Every reduction in tariff set out in these resolutions could be nullified by imposing a so-called import border tax on all such items. How can this be done? You have been negotiating for two years or so for these reductions. How can they be wiped out in this manner?

Mr. Sharp: These kinds of border tax adjustments would have to be approved, in a sense, by the GATT. If they did have this effect, of course, they would, as you suggest, violate the contractual obligation, and any country would then be justified in taking countervailing action, or in demanding compensation; but these border tax adjustments will have to be justified as being fair and reasonable under the circumstances, and as offsetting the effects of internal taxes on production that were not intended to apply to exports.

Mr. Wahn: I am afraid I am not making my point clear. Actually, this offsetting point I can understand, if the country were granting rebates on exports. I am talking about the taxes imposed on imports. How could that be considered as offsetting an internal tax?

The Chairman: I presume, Mr. Wahn, that your point is that if these imports were not otherwise subject to local sales tax, and, say, state and municipal income tax, then this would be the type of thing which the United States, or other countries, might be contemplating. Are you trying to say that if this is imposed on them when they go into the consumer market, or the wholesale market, it would not be justified? Is that what you are driving at?

Mr. Sharp: Let me put the case in simple terms, Mr. Wahn. We in Canada now place a sales tax on imports.

Mr. Wahn: And on goods manufactured in the country.

Mr. Sharp: Exactly. On exports we do not apply the sales tax. The Europeans do not have a simple sales tax such as ours. They have turnover taxes; they have taxes at various stages of the production; therefore, they say, "Those taxes are an unfair burden on our exporters, therefore we are going to allow them a rebate of the taxes that were never intended to apply on exports."

On the other side, when imports come in they have not been subject to those internal taxes and will not be, under our system, and, therefore, at the time they enter the country we apply, to offset the costs of production incurred by domestic producers, the same sort of costs on imports. Now, that is the rationale.

Mr. Wahn: I see. I gather, Mr. Sharp, that our reductions are coming into effect over a period of time. When they have become completely effective are we bound to maintain them at that level for any given period of time? In other words, has this agreement any particular duration?

Mr. Sharp: It runs indefinitely, as do all tariff changes.

Mr. Wahn: They could be wiped out...

Mr. Sharp: They are negotiated, of course.

Mr. Wahn: In other words, once they do become effective they could be terminated by any party at the end of a year, or six months, or a month?

Mr. Sharp: No one can buy into the Parliament of Canada.

Mr. Wahn: There is no agreement? These tariff reductions are not effective for any given length of time?

Mr. Sharp: Indefinitely.

Mr. Wahn: Well, of course...

• 1200

Mr. Sharp: They just become part of the tariff structure of Canada. It is possible, of course, for Parliament to amend them at any time, but if Parliament were to amend the tariffs, either on the recommendation of the government or otherwise then, of course, a country affected by its contractual arrangements with Canada, by which it made reductions in its tariff in order to obtain the concession in Canada, would come to us and say, "Well, now, you have broken the contract; we want compensation or we must take action of damage to you."

Mr. Wahn: Yes, but my question is, is there a contract for a definite period of time?

Mr. Sharp: Indefinite.

Mr. Wahn: Indefinitely long or indefinitely short? In other words, any other country

could terminate these arrangements. I am trying to understand what we are talking about here. As I understand you, Mr. Minister, any country could, without breach of contract, without breach of faith, or without breaking any contractual arrangement with us, terminate the proposed arrangement on one month's notice, for example, or without notice, as far as that goes, because the contract is not for any period of time.

Mr. Sharp: There are bound items in the GATT. We have bound our tariff structure to all our trading partners. We are bound to this. That is the nature of a contract. Now, if we say to another country, "We are sorry, we have changed our mind, we intend to change a tariff", or we do change one, the other country is going to say, "Well, we feel we are not obligated as we were before unless you are prepared to make a reduction and bind it in another item of equal value to us". The GATT is not some super-national authority. No one can prevent the Parliament of Canada from changing the laws of Canada nor the Congress of the United States from changing the laws of the United States. This is in the nature of a contract in which there are rights and obligations. If we change our tariff to the detriment of one of our trading partners, then we have an obligation to offer compensation or not to protest if they withdraw concession of the value to us.

Mr. Wahn: Then, once these tariffs are lowered as result of these Ways and Means Resolutions, they cannot be raised again except in accordance with GATT? Is that the position?

Mr. Sharp: No, I do not think that is quite right. No one is going to prevent Parliament from changing the laws of Canada, but it would have to be recognized by Parliament that if those laws were changed then we would have changed the terms of an agreement with another country and that agreement is expressed in our law by these tariff resolutions and by the laws that are based on them. I do not see how it can be put in any other way.

The Chairman: Mr. Macdonald, do you have a supplementary question?

Mr. Macdonald (Rosedale): I will try and put it to you in another way, Mr. Minister. Under the GATT, in Article II, we have agreed to have them at a certain level and if we increase them above the level by the sovereign act of the Parliament of Canada we

have broken that agreement and then the consequences of concessions and so on will apply under GATT, but the basic agreement we will have broken is that of the General Agreement on Tariffs and Trade.

Mr. Sharp: We can give notice that we would like to renegotiate anything. That is not contrary to the GATT. Whether you say you have broken an agreement or not there is a procedure for renegotiation and it is proper, although I think inadvisable, to use that very often because otherwise you will get into a downward spiral of increasing tariffs as countries raise their tariffs against one another to protect themselves. This is in the nature of the arrangement.

Mr. Wahn: I am completely confused now, Mr. Minister, but I do not attribute any blame to you particularly. Ordinarily when you talk about an agreement, you have an agreement for a period of time and if you depart from the agreement within that period of time, one can say that you have broken the agreement. What I am trying to find out is whether there is any international agreement to maintain these lower tariffs or not. It is a very simple question and I am having difficulty in getting the answer or understand the answer that I am getting.

• 1205

Mr. Sharp: Perhaps I could illustrate it this way. The trade agreements, in general, outside of some that have had certain special obligations in them, are of indefinite duration. In other words we have to denounce the agreement that we have with France. The agreement we have with Poland, I believe, is of the same character. We have had some post-war trade agreements which have been for limited periods because there have been certain short-term obligations which have been coincidental with them. However, generally speaking in trade matters, what is important is certainty. The business community wants to know that this is the tariff structure under which they are going to operate, so the idea of having a limited duration, I think, would be counter-productive. It would produce an uncertainty about the future. The fact that these arrangements are of indefinite duration, open to renegotiation, provides a mechanism for adjustment that does not produce any unnecessary element of uncertainty.

Mr. Wahn: I have another question, Mr. Minister. If we decide that the new duty is too low on a specific item do we have the right to increase a duty on a specific item as long as we make a compensating adjustment in some other item? In other words, are we bound by averages or are we bound by the new duties on specific items?

Mr. Sharp: In general, we are bound by the specific items. These were negotiated, item by item. There is a clause in the agreements which enables us to plead special circumstances and ask for reconsideration of particular items, but it is not on the principle of averaging at all. Each item has been individually negotiated.

Mr. Wahn: I understand that in the past, at any rate, Canada has had agreements with some other countries, for example Japan, whereby such other countries will voluntarily limit their exports to Canada. When this new arrangement goes into effect will such agreements be continued?

Mr. Sharp: Yes. They are quite separate and independent of this arrangement.

Mr. Wahn: What is the basis for negotiating such agreements? Why would any country voluntarily, without pressure, restrict its exports to another country?

Mr. Sharp: In the interests of avoiding market disruption. The Japanese are very anxious to develop a continuing trade in Canada. They recognize if they were to flood the market with goods of a particular kind that it might lead to pressures within Canada to apply the special provisions of the GATT. We are not powerless to take action on these matters. It would not be in contravention of our agreements if we took special action to protect an industry against massive disruption. The Japanese do not want that to happen as it would not be in their interest. They want to have a steady development of the Canadian market and, therefore, they have been willing to restrain their exports to Canada in the interests of their Canadian trade.

Mr. Wahn: What is your estimated loss on duties for this coming year and possibly next year as a result of the reductions?

Mr. Sharp: Assuming static conditions as that was the only assumption we could make, I am informed that the total loss of revenue at the end of the period would be about \$150

million compared with our revenues before the inauguration of the Kennedy Round. Our customs' collections have been running at about \$800 million so that gives you some idea of the change. About half of that would probably occur in the first year because certain of the programs come into effect more quickly than others.

Mr. Wahn: It is 150 million over four years.

• 1210

Mr. Sharp: Per year.

Mr. Wahn: Per year over four years.

Mr. Sharp: Yes.

Mr. Wahn: About 600 million over the four years.

Mr. Sharp: Yes, that is the level of duties assuming static conditions. The level of the customs revenues assuming static conditions would be \$150 million lower at the end of the period than they are today and 75 million of that would probably occur in the first year.

Mr. Wahn: In your statement, Mr. Sharp, you mention that under the new machinery policy there would be a remission on duty on machinery which is not made in Canada, if such remission was in the public interest. Who will be the judge of the public interest?

Mr. Sharp: The Governor in Council will be the judge of the public interest advised by the Minister of Industry, who in turn will be advised by a board which will examine each of the applications.

Mr. Wahn: We are talking now only about machinery which is not produced in Canada. I was curious about why there would not in all cases be a remission of duty in such circumstances.

Mr. Sharp: I think Mr. Wahn, that it would be well to examine the officials a little more closely on this. The normal case would be where the goods are not made in Canada. There could be cases however where the subsidiary of an American parent might not act in what we would consider a normal fashion.

Mr. Wahn: It is really to prevent evasion of some kind?

Mr. Sharp: That is right.

Mr. Wahn: Thank you very much.

The Chairman: I now recognize Mr. Lind. I wonder if Mr. Mackasey or Mr. Comtois still have supplementaries whether Mr. Lind would yield to them; if not we will proceed.

Mr. Mackasey: I have just one supplementary Mr. Chairman. It seems obvious from the Minister's words that there could be the odd case when some of these agreements or some of these rates will have to be changed either in retaliation or as a result of action in another country. I am wondering in the event of the remote possibility of this happening what compensation, if any, is contemplated for industries that may be affected immediately. For instance, an industry or company taking advantage of your technical assistance which may find six, eight, ten months or even a year and a half from now that circumstances have changed due to conditions beyond their control such as a unilateral change in the structure by another country to which you have to retaliate.

Mr. Sharp: If I may say, Mr. Mackasey, these are the kind of hypothetical questions I find very difficult to answer because I am not quite sure of the kind of circumstances that might arise.

Mr. Mackasey: I am thinking of many industries, so are you obviously by your statement here. I think you have gone to a very laudible extent to help out industries affected by these general applications but I am thinking in view of what Mr. Wahn had mentioned of the possibility of some firms changing their operations considerably and drastically on the presumption that this is going to be in effect for some time and then find six, eight or ten months later that there has been a change; perhaps generated by some other country.

Mr. Sharp: The kind of circumstances that the adjustment assistance is intended to deal with are either the adverse effects of a reduction in the Canadian tariff or the opportunities opened by the reductions in the tariff of the United States or some other country and in both these cases the government is prepared to offer some assistance to the companies to make the transition or make the adjustment either out of a business that is becoming too difficult or into a business that is becoming more profitable. The kind of circumstances that you are talking about have really very little to do with this. What you are saying is what will the government do if

there is an adverse effect upon a Canadian company arising out of disappointment expectations or an increase in the tariff of another country. Is that what you mean?

• 1215

Mr. Mackasey: Yes and no. You gave me two logical reasons why a firm should change its mode of operations to take advantage as you mentioned, not only of lower tariffs in Canada—therefore they must become more competitive against imports—but to take advantage of lower tariffs in another country; therefore to become more aware of exporting. I am thinking of the later case primarily.

Mr. Sharp: We are prepared to help in these cases because that is the whole purpose of the exercise.

Mr. Mackasey: Supposing that lower tariff is raised after a few months.

Mr. Sharp: This is what I refer to as disappointed expectations. Those instances are likely to be extremely rare.

Mr. Mackasey: They look pretty bad on the balance sheet, disappointed expectations.

Mr. Sharp: Yes.

Mr. Mackasey: I am just wondering if you have not thought of something.

Mr. Sharp: No. That would be an event over which we had no control.

Mr. Mackasey: But to come back to Mr. Wahn's point and the definition of indefinite. In that sense I agree with you, the tariffs are there until someone decides to change them. But these do not even have necessarily any guarantee of existence beyond an indefinite period.

Mr. Sharp: The same can be said of all the tariff negotiations under the GATT in the post-war period and I would think the number of cases in which there have been changes in contravention or outside of the agreement have been so few as to be almost miniscule. The trend of the post-war period has been towards lower tariffs throughout the world. I do not think Canada has ever been guilty of anything of this kind. We have negotiated a handful of items over the post-war period, nothing of any account. The GATT is not full of applications. In fact we have had the most stable trading environment the world has every known in the post-war period and this is just another step forward to a

lower level at which I hope there will be continued stability.

The Chairman: Mr. Comtois, if Mr. Lind will permit another supplementary.

Mr. Lind: All I have is one question Mr. Chairman.

Mr. Comtois: I can go after him.

The Chairman: Mr. Lind please.

Mr. Lind: What I am interested in mainly Mr. Sharp is this area of future opportunity for new industries, through this reduction of the Kennedy Round, getting into the field. What are we allowed in the way of inducement to these industries and still not run foul of the Kennedy Round of tariff reductions. Are we allowed to give them three years tax-free as we do with some of our mining industries in order to induce secondary industry to manufacture and start exporting products under the Kennedy Round?

Mr. Sharp: Mr. Chairman, as I said earlier, I have never known any concessions of that kind to raise questions in the GATT. Most countries have some form of special treatment of corporate tax, special allowances, special depreciations, special write-offs, tax-free periods and so on. This is commonplace throughout the world. Those have never been opposed on the grounds that they represented an export subsidy. In the first place, they usually apply at home as well as abroad and second, even if it were said they were nevertheless some form of inducement they are not of such a character as to be considered an unfair form of trade promotion. After all there are many forms of trade promotion that may relieve the producer of some expense. Every time the government sends a trade commissioner abroad, presumably he is helping an industry to sell abroad and reducing expenses that might otherwise be incurred by that company. The only cases that really cause trouble are those where a subsidy is paid directly on the product or where some special tax on the product might be involved; where there was discrimination; where there was something in favour of exports, rather than other things. These inducements that we make, for instance, to the designated areas to promote production or the special tax treatment accorded to mines and petroleum have never raised questions of unfair trading practices.

• 1220

Mr. Lind: This leads to one other point along this line, Mr. Chairman. What is the government's intention for trade promotion for new products so that we can take advantage of this Kennedy Round of reductions?

Mr. Sharp: I suggest, Mr. Chairman, that I am sure Mr. Winters will elaborate at great length on this and really I do not want to take credit for his activities.

Mr. Lind: I would like to move to the area of agriculture for a minute, Mr. Chairman. I notice that we are giving a reduction on raw tobacco entering the East European market from 28 to 23 per cent on a maximum. This is "Foreign Trade", page 26.

The Chairman: What page, Mr. Lind?

Mr. Lind: Page 26, near the bottom. As we are a tobacco exporting country, what rate has to be paid when our tobacco goes into the United Kingdom market?

Mr. Sharp: I think this is something that should be directed to the Trade and Commerce officials. The general division, as you can see, Mr. Lind, in our responsibilities the Minister of Finance has responsibility for the Canadian tariff and the Department of Trade and Commerce has responsibility for providing information about foreign tariff. There are some Trade and Commerce officials here but perhaps it would be better to wait.

Mr. Lind: I will let that part of the question stand. The other part of the question is, how do we overcome the importation of South African tobacco into this country which we had in the latter part of 1967?

Mr. Sharp: It is not affected by the Kennedy Round, at any rate. Mr. Lind, I do not know enough about this transaction. The Export and Import Permits Act would be the instrument that would be used for controlling this and I do not know whether this question should not be directed at a somewhat later stage. I would be happy to inquire into it and find out what the situation is but I do not happen to have enough information at my disposal at the moment.

• 1225

The Chairman: Mr. Cantin, Mr. Winters' Parliamentary Secretary, is making a note of this and will be in a position to have the information.

Mr. Lind: Is there any anti-dumping law that we can apply to prevent this happening in the future?

Mr. Sharp: It is not a question of anti-dumping, as far as I know. Dumping is a technical question of selling abroad cheaper than you are selling at home. There are always difficult technical questions concerning when dumping occurs but where dumping is established our law at the present is automatic. If you can show that the goods are being sold in Canada cheaper than they are being sold abroad then our law applies automatically at the moment.

Under the new dispensation the question of injury has to be shown too, but the question of whether particular goods are being offered too cheaply is quite a different matter. That is not dumping. If they are coming from a source with which we do not want to trade, that is another matter. It is not a question of trade policy then; it becomes a question of political policy.

Mr. Lind: Another product that somewhat affects the agricultural economy in this area is shelled corn which sometimes is imported from the U.S.A. at a very low rate and reduces the value to our farmers of a farm product that is produced quite heavily in Ontario.

Mr. Sharp: We are making no change in the duty on this.

Mr. Lind: Is corn free each way?

Mr. Sharp: Corn is 8 cents a bushel into Canada.

Mr. Lind: Eight cents a bushel into Canada?

Mr. Sharp: Yes.

The Chairman: We will have an opportunity to question Dr. Annis, head of the Tariff Section, directly on specific items, perhaps at greater depth than the Minister wishes to be taxed with at this point.

Mr. Lind: I have only one other area of questioning and that is in forest products. By reducing our export tariff into the States by the Kennedy Round, is this not adding to our cost of living index by raising the price of forest products here at home? They will go into the United States at a more preferential rate due to two things, the removal of the tariff and the extra value of the American dollar.

Mr. Sharp: My general view of the net effect of the Kennedy Round is to reduce the cost of both production and the cost of living in Canada below what it would otherwise be. There are particular cases where Canadian manufacturers and producers will be able to get higher prices because their goods are no longer taxed as they enter the other market. I am sure they will consider this a vast improvement in the position but the overall effect, when you look at the reductions that are being made in the Canadian tariff, the protection around Canadian industry and the extra efficiency that will be produced by better access to the American market by Canadian manufacturers, will be to reduce the cost of production in Canada and the cost of living, as well as to improve our market position.

Now, that is how I assess the situation, Mr. Lind. In particular products the price will go up, and ought to go up, because what we are getting back then is the tax the Americans otherwise put on our products and I prefer the Canadian producer to get it rather than the American government or some other government.

The Chairman: Mr. Lind has completed his questioning and before we continue I think it would be in order to adjourn for lunch unless the Committee wishes to continue. I think we have got off to a good start.

Mr. Cantin: May I ask one question?

Mr. Lambert: May I ask a question, too?

The Chairman: If you have just one question each perhaps we will take them, but these things have a tendency to keep going. Mr. Cantin and Mr. Lambert.

[Translation]

Mr. Cantin: Mr. Minister, you said a while ago that the forecasts of your department were that: due to the results of the Kennedy Round the revenue of Canada would be affected for the first year by about \$75 million going up to \$150 million when all the results are known. Can you tell us, on the other hand, if predictions have been made as to the profits which Canadian manufacturers will be able to obtain as a result of the Kennedy Round?

[English]

Mr. Sharp: It would be too difficult to make such an estimate, but I am glad you asked the question because I would not have wanted

the impression to be left that the net effect of the Kennedy Round is to reduce the revenues of the Government of Canada. It will, I hope, have exactly the opposite effect because the improved competitiveness of Canadian industry in large markets certainly will add to the incomes of corporations and individuals.

There will be more jobs, higher pay and more profitable enterprises in this country as a result of the Kennedy Round and the net effect upon our revenues certainly will be to increase them. The question I was asked earlier was directly on the amount of revenue that would be lost out of the Kennedy Round as such, but the overall effect on the government's finances will be to improve them.

[Translation]

Mr. Cantin: Mr. Minister, is it correct to say that Canada has gained about 50 per cent of the tariffs which our exporters had to pay before the Kennedy Round while we have agreed on an average reduction of 30 per cent? This would give us a net gain of 20 per cent.

• 1230

[English]

Mr. Sharp: Yes, the over-all effect of the Kennedy Round is a very great improvement in the competitive position of Canadian industry. In terms of the general level of our tariffs, we gain more by access to foreign markets than we give up in return, but the negotiations took place on the basis that we were giving equivalent benefits. However, in the result, as you say, many foreign countries and some of our principal markets, such as the British, the American and the Common Market pretty well made 50 per cent cuts in the main industrial area. As I have said, we made cuts of 25 and 30 per cent and therefore we gain access to those markets in a very substantial way.

It is true, as we are big importers of manufactured goods, that other countries would not have made those concessions to us unless they thought they were getting equivalent entry. However, the competitive position of Canadian industry is very greatly improved by the Kennedy Round. I could not put an arithmetical figure on it as you attempted to do, but certainly some of our producers will be able to get, by way of higher returns, some of the money that would otherwise be paid to the treasuries of other countries. As Minister of Finance that is the sort of development I welcome.

The Chairman: Mr. Lambert, do you have a question?

Mr. Lambert: Yes. On page 3, Mr. Sharp, the last sentence of the fourth paragraph reads:

Changes in the chemicals and plastics schedule will be introduced in a single step on July 1, 1968 and these are not therefore covered in the Resolution before you.

What is the projected timetable for the presentation of a resolution which would incorporate such a chemicals and plastics schedule?

Mr. Sharp: It is not my intention at the present time to introduce it during the remainder of the present session. If there is a spring budget I would think it would be introduced as part of that spring budget. It might be introduced separately but it would be at the beginning of the new session of Parliament. That is my present thinking.

Mr. Clermont: Mr. Chairman, I understand that we have representatives here from four departments. Is it not possible that one of them may think that there is a possibility that some of the workers might be obliged to be displaced, or something, or will we have representatives here from the Department of Manpower and Immigration?

The Chairman: I believe that somebody will be present from the Department of Manpower and Immigration and as we proceed with the witnesses who are scheduled, if members feel there are questions they wish to ask which are related to adjustment assistance, we can consider calling upon the Department of Manpower. I think one of the officials is either here now or will be here this afternoon to follow the meetings in case this arises.

Mr. Mackasey: Referring to the Department of Labour, Mr. Chairman, is anybody scheduled from the Consultative Branch of Management Labour?

The Chairman: Not at this stage. If this is a suggestion we could take it under advisement. We are presently dealing more with the economic effects rather than the labour management question. This is something that could be taken under advisement as well.

I think we should now stand adjourned until 2:30 this afternoon.

AFTERNOON SITTING

• 1442

The Chairman: Gentlemen, we are now in a position to resume our meeting. Are there any members who have not as yet had their initial round of questioning? If not, I will invite members to signify whether or not they have questions by way of a second turn. Mr. Lambert did you have a question?

Mr. Lambert: No, not at the moment.

Mr. Sharp: We have satisfied the Opposition.

Mr. More (Regina City): Do not be so sure. Mr. Chairman, I wonder if I might ask a supplementary to questions raised earlier?

The Chairman: Yes.

Mr. More (Regina City): This is about government intervention on behalf of industries effected in regard to interest and availability of money. I presume, Mr. Sharp, that in the event that the government intervened on behalf of any industry for the purposes of providing them with money through the banks you would expect it to be at the prime rate.

Mr. Sharp: Yes, I would think that the banks would regard the guarantee that would go along as providing some extra security. The banks will have some risks of course, but in general the bulk of the risk will be taken by the government, and therefore to that extent we would expect that the banks would give a favourable rate. Whether it is the prime rate I am not in a position to say.

We have had some discussions with the banks, and we will be having further discussions as to exactly how this is going to work. But it would, I should think, at least be the going rate for loans made to an industry of that kind. I certainly would not want to give any undertaking that the government's guarantee would be attached only to loans at the prime rate. We would expect, however, that the guarantee would have some some influence upon the rates in which the loans are available.

Mr. Hees: Mr. Chairman, the Minister said that he expected the rate would be the going rate for an industry of that kind. Well, if it is a going rate for industry of that kind, then is the government guarantee not counting for anything?

• 1445

Mr. Sharp: Oh yes, because these industries are going to be either suffering some adverse circumstances from the change in their own protection, or alternatively they are going to be seeking capital to take advantage of a new opportunity. It is very difficult to measure exactly what effect the government guarantee would have, but we would not be making the guarantee available if we thought that the banks would otherwise be financing those industries. You are putting them into a position where the effect of the changes in the tariff protection are being neutralized by the guarantee.

Mr. Hees: Mr. Chairman, could I ask another question? How much improvement in the rate would the Minister figure would result from the government guaranteeing the loan? How much would the going rate for that type of industry be improved by the government guaranteeing the loan instead of the bank having to take the risk of the industry going out of existence without any government guarantee?

Mr. Sharp: Well this is a very difficult question to answer Mr. Chairman. We will just have to see what the experience is. We will be watching this program very closely, because it is an experiment. The government has never done anything quite like this. They have given guarantees on farm improvement loans and home improvement loans, but we have never had an experience where the government has gone into making loans to facilitate an adjustment.

We will be watching this program carefully. We will probably have to adjust it ourselves during the course of its evolution if it does not measure up to our expectations; but I do not think it is possible at this stage to say how much value the banks will attach to the guarantee. They will certainly attach some, and we will be anxious to see that it is reflected in the availability of money as well as in the rates at which it is available.

The Chairman: Mr. Hees, perhaps, in fairness to Mr. More, I should ask if he has completed his questions.

Mr. More (Regina City): I will let Mr. Hees go ahead. I have a supplementary.

Mr. Hees: You go ahead.

Mr. More (Regina City): Mr. Sharp, as I understand the government's proposal, it

would only become effective where the banks could not see their way clear to undertake the risk and to extend borrowing privileges to the concern for their purposes. Is this right?

Mr. Sharp: Well the company would not come to the Board for help if they could get the financing otherwise.

Mr. More (Regina City): Well they might come to the Board and say: "The bank said your risk is more extensive than the usual one and our rate will be such and such". They might figure that is an inequitable rate and does not permit them to compete. They would come to you under those circumstances.

Mr. Sharp: They might; if the borrower felt that the rate was out of line he would say, "Well I think I deserve to take advantage of this program" and might come to the adjustment board and say, "I would like to have the guarantee." That, as I imagine, is how the program will develop. This is not an intention on the part of the government to substitute for the ordinary market forces, but to give the banks additional assurance so that the adjustment to the new trade situation can be facilitated.

Mr. Hees: Mr. Chairman, have the banks not indicated in any way at all what kind of an improvement on the going rate they are willing to make when the government guarantees the loan? There has been no indication of that?

Mr. Sharp: I have not, as yet, had any discussions personally with the banks about this so I really cannot speak from first hand knowledge. Some of my officials have been negotiating with the banks to determine whether they would be prepared to co-operate and they said they would. I do not know how far into detail the discussions have yet gone. The program has yet to get underway.

Mr. Hees: How much consultation has been undertaken with industry to find out their reaction to the government's plan, or, more specifically, how much discussion with industry was carried out before this plan was formulated, finalized and announced?

• 1450

Mr. Sharp: The government had had some experience with the automobile adjustment assistance and we were not without some

background upon which to proceed. As a matter of fact, it is quite clear that there has not been an overwhelming demand, which is a reflection of the fact that the effect of the reduction of the Canadian tariff has been that there is no widespread complaint about the Kennedy Round. The Kennedy Round is not regarded by many industries as posing very serious difficulties for them. In my opening statement this morning I said:

I have already said that, in my view, there is no doubt the net gains to Canada from the reduction in other countries' tariffs and from cheaper raw materials and intermediate products far outweigh any adverse effects on Canadian producers whose protection has been reduced as a result of the negotiations. This view is re-enforced by the fact that we have received relatively few adverse comments about the proposed reductions in our tariff in the six months since the results were made public.

So there has not been an overwhelming demand for this program, but the Government felt that it was desirable to have such a program and that is what we have done.

The Chairman: Thank you, Mr. Sharp. Are there other members of the Committee who have not yet had an opportunity to question the Minister? I believe Mr. Lambert has some further questions.

Mr. Lambert: Yes, Mr. Chairman. This deals with trade with nations which are not members of the GATT. In the publication put out by the Department of Energy, Mines and Resources it is indicated that while we do not have GATT relationships with the Soviet Union and certain other Eastern European countries, we extended most favoured nation privileges to these nations on the basis of bilateral agreements. They are going to get the benefit of the GATT in so far as Canada is concerned. Do we get reciprocal privileges with these countries under our bilateral agreements?

Mr. Sharp: Mr. Lambert, I had the privilege of negotiating the first trade agreement with the Soviet Union and we went through this argument *ad nauseam*. When we accord most favoured nation treatment to the Soviet Union, what we do in effect is to accord their goods, on entry into Canada, the same treatment as goods from the United States. In practical terms that is what "most favoured

nation treatment" means, since the United States is our biggest trading partner and receives most favoured nation treatment.

Mr. Hees: In other words, there is no country that gets better treatment than the USSR?

Mr. Sharp: Yes, the British preferential countries do. That is why I selected the United States as an example of a country that gets most favoured nation treatment, because the preferential system is a carry-over from pre-GATT years and it was continued although, as the Committee knows, there is an obligation not to increase the margins of preferences.

The Soviet Union, on the other hand, does not have a tariff structure like ours. Their industries are state-owned. Their trading organizations are run by agencies of the Government. In the first negotiation of the trade agreement with the Soviet Union we tried to put clauses into that agreement that would give us non-discriminatory treatment. However, we were unsuccessful. I remember finally saying to the chief Soviet negotiator, "Why will you not agree?" He said, "That would be an admission that we discriminate and we do not discriminate. Therefore we are not going to have a clause put into our treaty that says, 'You shall not discriminate against us.' We do not discriminate against anyone." I said, "Tell me, then, how do your state training enterprises operate?" He said, "We buy as cheaply as possible, we sell as dearly as possible and we distribute the profits." I said, "It sounds to me like a good capitalist enterprise". He said, "Where do you think we learned it, on the moon?"

• 1455

Therefore in return for giving the Soviet Union most favoured nation treatment, which is of very real and practical benefit, the Soviet Union entered into an agreement to buy certain products from us and our trade agreement with the Soviet Union is therefore of a terminal character. This is in reply to a point raised earlier by Mr. Wahn about the duration of these tariff changes. In the case of the Soviet Union they are only entitled to receive the benefit of whatever our tariff structure is and their most favoured nation tariff structure for periods of three years at a time, at the end of which we again negotiate to find some adequate *quid pro quo* for having given them the benefit of access to our market on the same terms as the United States. In the

case of countries that are organized, as we are, with market economies, of course the reciprocal benefit is access to their markets on a most favoured nation basis.

Mr. Lambert: I am concerned about this because I have read in Ottawa and elsewhere about representatives of Czechoslovakia, Hungary, Poland and other Eastern European countries who are most anxious to develop trading relationships with Canada, and under their bilateral agreements with Canada they are now going to get the benefit of our participation in the Kennedy Round agreement. I am wondering if we are going to take the position that during the currency of these bilateral agreements they are going to get a sort of a windfall.

Mr. Sharp: May I quote some figures to you, Mr. Lambert, on the balance of trade.

In 1966 our exports to the Soviet Union were valued at \$320 million.

An hon. Member: For wheat.

Mr. Sharp: Whatever it was, mostly wheat, and our imports from the Soviet Union were of the order of \$11½ million. This is generally the balance of our trade with these countries. They look upon the trade agreements that we have with them as not being weighted in their favour.

Mr. Lambert: Let us take a country like Czechoslovakia. What are the relative figures there? The trading position with the Soviet Union, of course, is entirely distorted as the result of wheat agreements.

Mr. Sharp: In the case of Czechoslovakia, that country happens to be a member of the GATT, but they have a mixed sort of a system in which they have some tariffs that are significant and—

Mr. Hees: Could I ask what part of that \$320 million was for wheat?

Mr. Sharp: It was mostly wheat.

Mr. Hees: Mostly wheat. There were practically no manufactured goods?

Mr. Sharp: Yes, but this arose out of the agreement. The first agreement that we signed with the Soviet Union in 1956 obligated the Soviet Union to buy about 400,000 to 500,000 tons each year, and in subsequent years this agreement was re-negotiated and I re-negotiated it again when I took office in

1963. It was as a result of that that we had these very large figures, so I think we made a pretty good bargain. We got access to the Soviet Union and I think on a basis that enabled us to get a larger share of their wheat imports than if we had not signed the agreement, so I consider that we got good measure in reply.

Mr. Hees: In each of these three year agreements how long ahead are they obliged to take so much wheat from us each year?

Mr. Sharp: If they do not renew then it lapses, and unless we agree to carry it on they lose the benefit of the most favoured nation. When we took office in 1963 the agreement had lapsed and we resumed the negotiations and renewed the agreement.

Mr. Macdonald (Rosdale): Mr. Chairman, presumably this question with regard to dealing with state trading countries has arisen in connection with the accession of Poland. How does GATT generally solve the problem of the fact that you cannot get a reciprocity in tariff treatment? Should that be referred to...

• 1500

Mr. Sharp: I think I should refer this to an official who is much better acquainted than I am with the matter.

The Chairman: Perhaps we will reserve that question for Dr. Annis, or particularly a Trade and Commerce man. Perhaps Mr. Schwarzmann will deal with it.

Mr. Lambert: The reason I am asking these questions is that I think if we are going to improve our worldwide trading position that it would be in our interest to develop trade with these particular countries, they are anxious as well, but I am wondering if they are in a position or are prepared to make, shall we say, parallel concessions if they are going to get the benefit of the MFN under the Kennedy Round.

Mr. Sharp: In general I would say the answer to that question is yes. Some of the state trading countries at least are very anxious now to participate in the development of world trade in the market economies. They are doing an extensive trade with Europe, they are hoping to do a greater trade with North America and I think they are interested in entering into multilateral arrangements of this kind.

European countries have dealt with these problems a little differently. They have had bilateral agreements of a rather different character. They have established quotas. They will only allow limited quantities of merchandise from these state trading countries to enter their countries as the bargaining instrument. Just as the Soviet Union controls all its imports, the European countries have tended to enter into that kind of a bilateral arrangement. That is not suitable to our approach to trade. We do not have state trading organizations that could buy the materials or the produce and therefore we have preferred—and I think this has worked out advantageously—to enter into the kind of agreements in which we offer them the same type of access to our market as is accorded the United States, and in return we get specific undertaking from those countries on what they will buy from us.

Mr. Hees: Mr. Sharp, are there any countries to whom we are giving trade tariff reductions in the future, as a result of the Kennedy Round tariff negotiations, which are not giving us reciprocal reductions in their markets?

Mr. Sharp: Yes.

Mr. Hees: Which countries are those?

Mr. Sharp: Those are the less-developed countries. It was decided at the beginning of the negotiation on the GATT that we should try to make our reductions in such a way as to benefit the less developed countries and not require reciprocal concessions from them. This, in fact, has happened. We have not expected that these countries would buy access to our markets. We believe that it is very much in our interest to promote the industrialization of these less developed countries—a better way of promoting even than aid and certainly as part of a policy of trade and aid—and we have not expected them to bargain on the same basis.

Mr. Hees: Outside of the underdeveloped countries, there are no countries to which we are according reductions in tariffs starting January 1 which do not give us equivalent reductions in tariffs in return?

Mr. Sharp: That is a difficult question. It would not be true to say that the balance of advantage between any two countries is equal. The United States does not have an equal bargain with us or with the Common

Market or with Britain or with Sweden or with Australia. The over-all package is, in the opinion of the United States, advantageous to them in the relations with all countries collectively. The same is true of us; we have not struck a balanced bargain with the United States and with Britain and with the Common Market. We have struck a balanced bargain with them collectively. Otherwise, if we were to take the other view, then it would greatly restrict the scope of the negotiation to our disadvantage.

Mr. Hees: There is no country, then, that is not giving us what we consider a satisfactory freer entry into their market at the consequence of our giving them a freer entry in our market?

• 1505

Mr. Sharp: Mr. Hees, it is difficult to give a categorical answer. We bargained with a great many countries to effect a substantial reduction in barriers to world trade. We received what we considered was adequate compensation from those countries collectively for the concessions that we made in our tariffs of value to them.

There are some countries, however, that did not participate fully in those negotiations. We did not direct any of our concessions to those countries but, of course, some of them probably benefited incidentally and that is inevitable in any MFN system. But the extent of the participation was very, very wide and I would think that well over 90 per cent of our trade with the market economy countries was included within the ambit of the negotiations.

Mr. Hees: I have some other questions to ask, but I do not want to block off all the other Members of the Committee. I am asking these questions because I was not fortunate enough to have been here this morning due to the fact that my airplane would not land last night. Mr. Chairman, when the other members are finished I have some other questions I would like to ask.

The Chairman: Mr. Hees, I think you might as well proceed. It appears that the other members have dealt with their major topics of interest.

Mr. Hees: All right. Mr. Chairman, I am wondering why it was not possible to outline a great deal earlier the government's proposition made public on December 27 and thereby

give industry much more chance to come into discussions, the preparation of it and, perhaps, make comments before January 1 arrived. It seems to me that although the announcement of what the tariff reductions were going to be was not made until practically July 1, the government had a pretty good idea about a year ago what the pattern was going to be. I am wondering why the government did not work out a general pattern—not a final plan—and start discussing it with industry in the summer, say, to see what their reaction was—to get their suggestion—so it would not have been necessary to finally present a *fait accompli* five days before the tariff reductions came into operation?

Mr. Sharp: Mr. Chairman, I think the best answer to that is the one I gave a little earlier—there has not been any very great pressure for this program. We contemplated from the beginning that some sort of adjustment to settle this program would be desirable in the event the extent of the reductions in the Canadian tariff was not such as to expose many industries to what they considered a very severe increase in competition although there are exceptions to that. There are some industries that have felt the breeze. Moreover, with the few exceptions, the tariff changes are staged over five years and the amount of the reduction that took place on January 1 is really very small. For example, when giving the effects of these reductions, I pointed out that on final manufactures the rates are reduced from present rates of 22½ per cent to 25 per cent down to 17½ per cent to 20 per cent so you can see that the reduction is about 5 percentage points. If you stage those over four or five years you get down to extremely small changes in any one year. Therefore, we did not think we were exposing industry immediately to a very large adjustment. We expect that the problems will arise a little later, so we felt that our program could come into effect about simultaneously with the first of the adjustments. Similarly, on the other side, although the reductions in the tariff of other countries are even larger—very much larger than we are proposing—they also come into effect in stages, and it will take time for Canadian industry to build up the potential that is there.

• 1510

This, I think, Mr. Hees, is the reason for our feeling that there was not that degree of urgency.

Mr. Hees: Mr. Chairman, another question I would like to ask...

Mr. Sharp: If I may just add one other thing, the Minister of Industry had asked industry for its views on this subject before the middle of the year.

Mr. Hees: I am surprised, Mr. Chairman, that the banks have not indicated to the government the reduction in interest rates that they would make available if the government guaranteed the loan. It seems to me to be a fact that the government's guarantee of a loan is worth a lot, and it would seem also that perhaps the banks might decide, "Well, we have been told that if we make a reduction the government will guarantee the loan. There will be political pressure on the government to carry out the program they have advanced, and therefore they cannot withdraw. Therefore, if we only give an improvement of perhaps a quarter of one per cent—something very small—the government will be forced to go on guaranteeing the loan and we will pay very cheaply for this government guarantee."

It seems to me that the government should have received a clear indication of just how much the banks would reduce the interest rate charged on loans for this very important guarantee that the government is making to them. What is the Minister's opinion of that?

Mr. Sharp: On the other hand, Mr. Chairman, if the government had held out a reduction as the reason for going into this program then, of course, the whole question of the program would have had to come under the government's adjustment assistance, rather than their financing themselves in a conventional way.

The purpose of this exercise is to make financing available. Now if, as I say, one of these companies feeling the breeze of competition found that it could get accommodation only at very high rates it would come to the Adjustment Board and see whether it could not get it at a better rate if it had a government guarantee. But it is not our purpose to divert ordinary commercial loans that would otherwise be paid into the government guarantee.

The purpose is to see that industries that cannot get accommodation can continue to get it. That is the fundamental reason for the program.

27247—3

Mr. Hees: The government obviously realized that many industries today, if they are particularly high-pressed by competition, cannot afford to pay the high interest rates they are charged with on the market today, and is anxious to see that such hard-pressed industries should receive the money they need to expand, to buy new machinery, install new systems and to purchase new plants and so on; and that that money should be available at interest rates considerably more reasonable than those that are charged on the open market today.

The Minister is a business man, as I am—as are all of us around this table, I think—and I think he would agree that if you want to strike an agreement in industry with another party, you sit down and talk about what you are willing to do, and find out what he is willing to do in return. It seems extraordinary that the government has not, prior to the introduction of this plan, sat down with the banks and said, "We do not blame you for the high rate of interest today—many factors are to blame—but we do feel that it is necessary that industry, if it is hard-pressed, pay a cheaper rate of interest for the money that it needs than that being charged in the open market today. Therefore, we are going to offer a guarantee of the loan and we would like you, in these particular cases, to make the interest rate considerably lower. For the government's guarantee, what are you willing to do?"

• 1515

That seems to me to be a perfectly normal business approach. I am surprised that the government did not make it, and that we have no idea today what the banks are willing to do for this very, very valuable and important guarantee by the government.

Mr. Sharp: I can only repeat what I said earlier, Mr. Chairman, that as far as I and the monetary authorities in this country are concerned, we would like to see all interest rates lower. That is one of the main purposes of the policies that we are now following—to reduce the demands on the market by governments for more money and to make more available for industry.

It is also the purpose of our general attempt to change the psychology of the market so that people do not think that inflation is inevitable, which is one of the main reasons for interest rates being high. However, I

do not believe that that, in itself, would justify selecting his particular group of people for a differential rate of interest as against other people who, are you recognized, and as I think you said in your statement, would also like to expand and would like to get money cheaper.

The purpose of this policy is to facilitate the adjustment to the new conditions created by the Kennedy Round—both negative conditions created by the reduction in protection to industries that are dependent upon it, and the increased opportunities that are available to industries as a result of the reduction in the tariffs in other countries.

I believe that what the government should be trying to attain by its policies is to make sure that those industries are able to finance themselves at going rates of interest and not be denied the credit. Bank loans in this country are very high notwithstanding the high interest rates. Business is borrowing back sums of money. I find it difficult to justify selecting these particular people for a differential rate of interest, but the government is concerned, broadly speaking, in seeing that they can get money at going rates of interest.

As I said, when you get down to the negotiations the question of what are the going rates of interest is very difficult to determine. We have had some discussions with the banks and we will be having others; we will be watching this program to see whether it fulfills our purpose; but most industries in this position would be concerned about having access to funds in order to make the transition, and this is what the government is endeavouring to do.

Mr. Hees: Well, Mr. Chairman, they are anxious to get funds, but because they are these particular industries, hard-pressed by the tariff reductions that are being made available to other countries, they need to produce at a lower cost or they are not going to be able to sell in competition with these lower-priced products that are coming into Canada today. Therefore, they must reduce their cost in every way possible, and one of those reductions in costs is a lower cost of the money they need to pay for the new machinery, systems, plant and so on to produce at a cost cheaper than before and so stay in business, sell their products and provide employment.

These people not only need money to be made available to them, but they need a considerably lower cost for that money. That obviously is the reason for the government's having introduced this government guarantee for these specific hard-pressed cases. If there had not been this need the government would not have introduced this plan. Having introduced the plan—having said it would provide government guarantees—I find it extraordinary that the government has not had some assurance from the banks that where the government gives them a guarantee of repayment of their loan—which is very valuable indeed—they, the banks, will reduce the rate of interest by a half of one per cent, three-quarters of one per cent, or one per cent, or whatever the bargain would be. That to me would be the businesslike way of doing it. Simply to say that the government will put up a guarantee and hope to heaven that in some way or other the banks, through their big-heartedness, will make a worthwhile reduction in rates, is to me a rather unbusinesslike way of proceeding.

• 1520

Mr. Macdonald (Rosedale): But surely the purpose of the guarantee is to insure the repayment of the capital. It is not the question of a half percentage point of interest; it is the fact that the banks would not lend at any rate of interest to a firm that might not be able to pay the capital back.

Mr. Hees: The bank wants to make the loan if it feels that there is any justification. There is certainly justification if the government guarantees the repayment of the loan. There is no risk to the bank then whatever and therefore I believe the bank should make the loan at a considerably lower rate than the going rate for, as the Minister said, that type of industry. If they are unwilling to do so, I feel that this part of the program is largely worthless.

Mr. Sharp: Mr. Hees, may I say to you that no application will come before the Adjustment Assistance Board where they can get accommodation outside.

Mr. Hees: I am talking about people that are particularly hard pressed.

Mr. Sharp: Well, those people will go first of all to the banks to see if they can raise a loan; they will not come to the Adjustment Assistance Board first. When they cannot get

a loan at any price, or at extortionate rates of interest from somebody outside—not from the banks but from the many other institutions—they will come to the Adjustment Assistance Board to enter into an arrangement whereby the banks will be prepared to deal.

Mr. Hees: Then I take from what the Minister has said, Mr. Chairman, that really we can expect no reduction in interest rates to industry no matter how hard pressed they are. All this guarantee will do is to make money available at the going rate of interest, and there will be no reduction in interest to anybody.

Mr. Sharp: No, there would not be otherwise. They will not be able to come, however, unless they have been unable to obtain accommodation elsewhere.

Mr. More (Regina City): Mr. Chairman, will the guarantee be in the nature of 10 per cent of the total loan? It is not going to guarantee to repay the whole loan?

Mr. Sharp: The Minister of Industry will be administering this, and I am not familiar with it.

The Chairman: We will be hearing from Mr. Wright the Industrial Policy Adviser who will be speaking to us directly on the program.

Mr. Sharp: One sentence I think sets it up quite clearly which states that the principal feature of the program will be the offer by the government of insurance of the major share of the risk of loss of these Industrial Adjustment Assistance Loans made by private lenders.

It is not a 100 per cent guarantee; there will be a full insurance feature and second element, where the banks would not be prepared even to make an insured loan, there will be direct government loans in the case of carefully defined hardship up to a total of \$10 million in the first year of the program. Third, there is the program of the extension of technical assistance.

I think it is a reasonable approach. I point out to the Committee that even the Industrial Development Bank, which is a government institution makes loans at rates that are, on the whole, a little higher than those of ordinary banks. There is nothing unusual about this, and while those who receive loans from the Industrial Development Bank may feel they would like to get the loans at a cheaper

rate of interest—I have never known any borrower who did not—nevertheless they would rather get a loan from the Industrial Development Bank than try to go into the market and raise funds in a bond issue or go to money lenders and pay rates of interest very much higher than those charged by the Industrial Development Bank.

In a sense this plan is also a plan of last resort. It is a plan that comes into operation only when the industry concerned is unable to finance itself in the ordinary way.

Mr. Hees: Well then, Mr. Chairman, this makes the going rate a very important one indeed. Does the Minister have any concrete reason for believing that say, within the next six months—and I do not expect him to produce a crystal ball, but I would like to have his opinion—interest rates are going to come down at all?

• 1525

In the past year and, in fact, before that, interest rates have gone up steadily. The Minister has spoken about the things that he and the government, of which he is a member, are doing to reduce interest rates, but we see that interest rates continue to go up and up. What is his opinion of that? Do you see any hope of them coming down, or is your forecast for still higher rates?

Mr. Sharp: Mr. Chairman, you will recall that when we were in Rio de Janeiro we spent a lot of time talking about world interest rates, which includes Canadian interest rates. I remember the Chancellor of the Exchequer asking a few of us to meet with him at the British Ambassador's and talking from 9 o'clock until midnight. In response to a question from the Chancellor he said: "We have here some of the wisest people in the world in this field"—he was talking about himself—"how do we get interest rates down?" We talked for three hours, at the end of which he said: "I do not know how I will ever explain this to the Trade Union Congress."

This is a world wide phenomenon, of the kind that we have not seen in our time, of high interest rates associated with easy money policies, and it shows a fundamental disturbance in financial markets throughout the world arising from changed expectations. It is not possible to control this in this country but it is possible, I think, for us to see that our situation does not contribute to any higher interest rates than are appearing in the world as a whole.

We are, as Mr. Hees knows very well, one of the biggest borrowers of capital in the world. That being so our interest rates must be sufficiently higher than those in the United States to enable us to attract the capital we need. Therefore, there can never be any great change in the differential between American and Canadian interest rates.

This is one of the fundamental controlling factors. I am not saying this because I am trying to deny responsibility; I am talking only about the nature of the problem that we face. We have responsibilities which we are trying to discharge, but we cannot bring down interest rates simply by issuing more money, by having an easier monetary policy. We have had a relatively easy money policy, so have the Americans, and under the circumstances interest rates kept going up.

I am satisfied myself that one of the reasons for this is the war in Viet Nam, the enormous expenses involved in that war and the great financing the United States has to do. The United States has not yet been able to do what we did, and that is to put on some appropriate taxes, and we must all hope in this country that the Americans will keep their own financial house in order so that we do not suffer unnecessarily from the consequences of this world-wide condition.

Mr. Hees: Mr. Chairman, would the Minister not agree that the spending policies of any government have a considerable effect on the interest rates existing in that country? Would he not agree to that?

The Chairman: I will allow the Minister to answer this question, but I suggest to the Committee that we are not in a general discussion of monetary policy either domestic or international. I think we should try and relate our questions to the subject matter.

Mr. Hees: Mr. Chairman, with great respect, if I could say this: As the Minister said, we are discussing a government program to help hard pressed companies whose experience is expected to be more difficult due to the tariff reductions. These companies are going to have to sell in competition with cheaper goods; they are going to have to bring down their costs. One of the ways that costs can come down is to lower the cost of money. The minister has said that the government is unable to do anything to reduce interest rates to these people. I am asking, just as a Canadian interested in the future of the

economy of this country, where he believes that interest rates are going, and he has not answered that question.

Mr. Sharp: Because I do not know, Mr. Hees.

Mr. Hees: You have no idea?

Mr. Sharp: I have some ideas but they are private ones.

Mr. Hees: Well then, could he answer this. I am convinced that the government's experience in spending has a considerable effect on the interest rates in any country. The last figures that I saw—and I am sure there are figures out more recently—were those produced by the Dominion Bureau of Statistics which indicated that during the first seven months of this year...

• 1530

Mr. Mackasey: On a point of order, Mr. Chairman. I do not think we are on the subject matter at all. I think we are getting a propaganda speech here against the government and its policy versus interest rates in general. I could make the same case. Why do we not help the interest rates in housing? This has nothing to do with this particular subject matter.

Mr. Hees: I am talking about the interest rates that are applicable to industries that are hard-pressed, and interest rates are something that constitute a very important cost of production. I am asking Mr. Sharp if he has any figures which are later than the first seven months of the year which would indicate that the government's rate of spending has been reduced?

Mr. Mackasey: Mr. Chairman, I would like to speak on the point of order which is before you.

The Chairman: Mr. Hees, if I may interrupt you, a point of order has been raised and I said at the outset this morning that I thought our discussion could have a latitude similar to the latitude that would prevail if this were being discussed in Committee of the whole House. At the same time, I think there are some bounds of relevance which are related to the subject matter before us. It is my personal hope that we will soon reach a time when such matters as the Economic Counsel Report, or any other medium-term report on economic conditions, would be

referred as a matter of general parliamentary practice to this Committee, at which time we would be able to discuss, in both a broad and detailed way, questions of this type. I also hope that perhaps as a matter of parliamentary practice we might even have referred to us such things as budget messages. I am expressing my own views, which I hope will be agreed with by other Members of the Committee and the House in general. However, as this is not the type of thing that is before us and as I think that general questions of the type which you are now posing relate more specifically to a general discussion of economic conditions, and as I think I have already permitted quite a wide range of discussion and questions and answers between yourself and the Minister, I would ask you to relate your questions, on interest rates specifically to the type of thing which led to your questions; that is to say, what rate firms could borrow at who want to adjust to the Kennedy Round or in the alternative, perhaps you may want to pass on to some other line of questioning.

Mr. Hees: Mr. Chairman, in reply to what you have said, the Minister has clearly indicated that firms can borrow at no lower rate of interest than the going rate because the government's plan does not envisage making lower rates available to them. Therefore I think that the level of interest rates, and what takes them up or brings them down, is of great importance to this Committee and of great importance to industry. I think industry would like to have some clear-cut indication that the government's program is bringing interest rates down or has some chance of bringing interest rates down in the future. However if it has not, if the government simply washes its hands of the whole thing and says that this is an international matter and it is out of our hands, then I think the public and business should know it. If that is what the Minister believes, then I would like to have him say it.

In other words, it comes down to this. If the government can do anything to bring interest rates down I would like to know what they are doing and how effective it has been, and if they are not, then I would like to have the Minister say they cannot and then we will know where we stand. Business will then know that it is probably going to have to face considerably higher rates in the months ahead than it has been experiencing during the past year. That is all.

Mr. Sharp: Mr. Chairman, may I just say that I really think we are straying very far. If Mr. Hees would like to have my views *in extenso* I will send him many speeches that I have written on the subject. He will probably ask me the same questions again and he will ask me to answer yes or no. Unfortunately these questions are not capable of being answered in a few brief words. They are extremely complex and I can tell you that ministers of finance everywhere in the world are puzzled about the same phenomenon. We can only do what we can in this field. Mr. Hees may have had the view that it is not adequate, and I respect his view, but for us to go on with a discussion of interest rates would lead us very, very far astray, Mr. Chairman. I have made it quite clear what our policy is on the adjustment assistance and I do not think I can add anything to what I have said on this subject.

The Chairman: Have you completed your questioning, Mr. Hees?

• 1535

Mr. Hees: It seems that the Minister is not going to give me any answers. I have read his speeches extensively and I have not received any answers from them.

Mr. Mackasey: Perhaps you have not read them carefully enough.

Mr. Hees: I have read them—

Mr. Mackasey: Or perhaps you did not understand them.

Mr. Hees: I have read them very carefully and I think I am capable of understanding the Minister's speech, your speech or anybody else's speech.

The Chairman: I think the chief factor here is that we may be moving rather far afield from the subject matter, which is the tariff changes arising out of the Kennedy Round. As I said at the outset, I hope we will reach a time when broad general discussions of economic policy of this type will be a matter of the regular agenda of this Committee. However, we have not reached that stage and this is really not the question before us.

Mr. Hees: It seemed like this was an excellent opportunity, Mr. Chairman.

The Chairman: We have an order—

Mr. Hees: I know the Minister is going to be very busy elsewhere on Thursday. I also think perhaps his mind is going to be on other things on Wednesday, and today is Tuesday. It seems like an excellent opportunity to understand the Minister's point of view today before he gets on to other important matters.

Mr. Macdonald (Rosedale): At least he is correct in his understanding of the days of the week.

Mr. Sharp: It should be directed to the particular points of substance.

Mr. Hees: That is exactly what I thought I was directing my question to.

Mr. Sharp: It seems to me that this is a scatter-gun approach and I am not going to respond to it.

Mr. Hees: Having been a manufacturer and having been up against the kind of competition that these tariff reductions bring about, the kind of questions that I am asking are the kind of questions that a manufacturer would want to have the answers to, and I am afraid that...

The Vice-Chairman: You might also want to consult with Mr. Sharp about his activities next Thursday and Friday.

Mr. Hees: Mr. Chairman, if we were as clear about what we are asking today as we are clear about what he is going to answer on Thursday, I do not think we would have very much to worry about.

Mr. Lambert: As a supplementary on this point of the government guarantee, is there not a risk, Mr. Sharp, that what you feel is to be sort of the last resort will be the rule of general conduct? You hope that industry will get its financial accommodation in the normal channels but if I am in the position of a lender and I can readily attach to the loaning transaction a government guarantee, I am going to make that a general rule.

Mr. Sharp: No, I do not agree with this, Mr. Chairman. There will be many big industries that will see great opportunities of expanding from the Kennedy Round that will have no difficulty in going to the market and raising money, and there will be others whose bankers will be only happy to finance it. We are not going to get all the cases. There are going to be many where there is such an

obvious opportunity available to them as a result of the reductions in the tariffs in other countries that they will have no difficulty in the ordinary sense. I believe we will be getting the exceptional cases.

The Vice Chairman: If we have no further questions of the Minister I think we could excuse him at this time and thank him for his attendance.

Mr. Hees: I would like to ask him a couple of questions. I thought other people would have further questions.

Mr. Clermont: I said that I had a few questions, Mr. Chairman.

The Vice Chairman: I am sure we can continue.

Mr. Clermont: You always ask those who did not ask questions if they want to ask a question, but you do not ask others who have already asked questions?

The Vice Chairman: That is fine. Then certainly we can continue. Mr. Hees, have you completed your questions?

Mr. Hees: No. I would like to go on to another subject. I would like to get the latest report on what the Minister has been able to find out regarding the American attitude toward imposing import quotas against Canadian goods. We heard a lot about that last fall. What is the latest report on it?

Mr. Sharp: I answered that in a general way this morning, Mr. Hees.

Mr. Hees: I am sorry, but as you know I was not here.

• 1540

Mr. Sharp: I said that so far most of the reports have been exaggerated and that I felt that the forces that were in favour of maintenance of the progress that has been made by the United States in the post-war years would prevail. For example, the first round of the Kennedy cuts came into effect and Congress did not act to stop this. I am sure there will continue to be particular pressures but I am not concerned any more now than I was about this. I feel that there is still a very strong movement in the United States to avoid embarking upon policies that will start a downward spiral of trade. Even in the

measures that the United States has been taking to protect their balance of payments there has been a notable absence of action to restrict imports. It is quite notable. All the measures have been directed otherwise. Even in the border tax adjustments that I was talking about this morning those are a defensive measure against Europe. They are not originating in the United States as a means of improving their own balance of payments. So I believe that these pressures will continue and it may be that some of them will turn into Congressional action, but so far I do not see any reason to be any more apprehensive than I was.

Mr. Hees: Can the Minister give us any idea how our economy will be affected by the requirement to repatriate profits—earnings made by American subsidiaries operating in Canada.

Mr. Sharp: Mr. Chairman, I think this is right outside the terms of reference. I think we should confine ourselves to the terms of reference.

Mr. Hees: I had not intended asking that, Mr. Chairman, but the Minister brought up these latest arrangements that have just been published, and I thought for that reason that it might be...

Mr. Sharp: I brought them up because they were discussed this morning in connection with the border tax when you were not here, Mr. Hees. I made a statement on this subject in which I gave the intentions of the Canadian Government in response to the American initiatives on trade.

The Chairman: In fairness to the Minister I think, perhaps, it should be said he limited his remarks to the general ambit of trade policy and did not deal with this matter within the ambit of the American balance of payments problem.

Mr. Hees: I might say, Mr. Chairman, it seems a shame that in a Committee of this kind—a business committee of Parliament which meets every few months, it is not in continuous session by any manner or means—when the Minister is here—I do not think there is anything he must rush away for right at the moment—I think it is unfortunate that, perhaps, we cannot have this views on some of the matters that are of great importance to the country and certainly of importance to us. Now, there is no way of

requiring him to answer. If he does not want to answer then he does not have to answer, of course.

Mr. Mackasey: Mr. Chairman, on a point of order...

Mr. Hees: It would not take him very long to give an answer at this time and I think we would all be very interested; I know business, generally and I think Canadians, generally, would be.

Mr. Mackasey: Mr. Chairman on a point of order.

The Chairman: Mr. Mackasey on a point of order.

Mr. Mackasey: Obviously Mr. Hees is seeking a lot of information from the Minister in areas other than those we are assembled here to discuss. We were summoned back here, one week before Parliament reconvenes, for a specific purpose and to do so some of us have made sacrifices as I presume the Minister, the Chairman and Mr. Hees have. We are here to discuss a specific subject matter. I am interested, to the same extent as Mr. Hees, in all these other implications affecting the economy of Canada. I just do not happen to think this is the proper place or time for it.

Mr. Hees: Well, Mr. Chairman—

Mr. Mackasey: I am speaking to you, Mr. Chairman, I have not completed my point of order. I raised a point of order twenty minutes ago and you asked Mr. Hees gently and kindly if he could restrain himself to the business on hand and, of course, he strayed away again for reasons best known to himself. I would just like to know from the Chairman whether or not we are going to stick to the business on hand. If not, then I am sure each and every one of us can introduce some subject relating to the Department of Finance, maybe of general interest, but which has very little to do with this particular subject.

Mr. Hees: Mr. Chairman, in reply to what the hon. member has said, I think you will agree that I have offered several times this afternoon to stop questioning; I said that if there were other people who wanted to ask questions they should go ahead and I would wait until later. Each time nobody else had any questions to ask. You assumed that the members had asked all their questions. A few

moments ago you said, "Well, if those are all the questions we have, then I will be glad to excuse the Minister". Obviously, therefore, nobody has any other questions to ask the Minister, no other statements to make—or they would be making them or would have said so at that time. It seems to be a great shame that on a day when Parliament is not meeting, when I, like you and everybody else, has made considerable sacrifice to be here today, the Minister could not answer a question. We have arrived at the time of a quarter to four; we have the rest of the afternoon; Parliament is not sitting; we have nowhere else to go and nothing else to do at this moment. Some of us who are fishermen get our job done early in the day and do not have to do it at the end of the day. We all work whenever it is most easy for us.

An hon. Member: Where were you this morning?

Mr. Hees: I am speaking on his point of order. I say it seems to me a great shame that at a time like this when the Minister obviously has a little time to give us—we do not meet too often—he could not answer a question which is of great importance to the country and which, I think, he should be able to answer quite easily. However, if he does not want to answer it, then, of course, he does not have to. If you have some questions to ask, I would like to hear you ask some good intelligent question.

Mr. Mackasey: If only you had been here this morning, you would have heard them.

● 1545

Mr. Macdonald (Rosedale): Mr. Chairman, on a point of order, the question is not whether Mr. Hees can be guided through the economic meadows by the Minister. The question is whether we are going to deal with the Kennedy Round. Mr. Hees seems to be of the view that he can go on meandering through these various areas at a cost to no one else. We have Mr. Grey and Mr. Annis here who, for a period of several years, were engaged in the negotiations at the Kennedy Round. They are prepared to make statements to us and we have questions for them. Mr. Hees says he has nothing else to do today. He is fortunate. There is a group of gentlemen behind me who have a lot to do with busy government service and I think we should get down to the Kennedy Round. If Mr. Hees has questions to ask on the Kennedy Round he should ask

them, but if not, I think we should get back to the business of the Kennedy Round and dispense with him.

The Chairman: Gentlemen, I think that we have had an exchange of views on the point of order. I want to make it clear that the mere fact we are here at this time and that members indicated they had no further questions to ask the Minister on the initial round of questioning does not mean that any other member is free to ask any question that occurs to him on any subject which may somehow or other relate to the Minister of Finance. We do have an order of reference from the House, that is, the subject matter of the Kennedy Round resolutions. Unfortunately, under the present rules of Parliament, we cannot of our own initiative take opportunities to discuss questions which may be of importance or seem to be of importance to individual members or to the Committee at large. As Mr. Macdonald has pointed out, and as I explained this morning, in addition to the Minister, we have a number of officials who have been requested to make statements and be available for questioning on specific aspects of this broad issue. They are waiting to testify after we complete our questioning of the Minister. I would suggest to the Committee at large that we should attempt—and not only we should attempt—we should definitely relate our questioning as closely as possible, although not unreasonably so, to the terms of reference imposed upon us by Parliament. I apply this restriction to the Minister as well.

Mr. Sharp: Thank you. I will have to be restrained.

The Chairman: Therefore, perhaps, I can call on Mr. Clermont who did indicate he had further questions related to our order of reference.

[Translation]

Mr. Clermont: Mr. Chairman, I do not know if the rule still applies to the present proceedings, but when we worked on the revision of the Bank Act, each member was allowed 20 minutes; after which he had to give up the floor to another member. This is the reason why this morning after a certain length of time—I do not know if I had reached the limit of twenty minutes—I left the floor to another member, but I indicated that I had other questions to ask. Mr. Hees invited our colleague, Mr. Mackasey, to ask

any intelligent questions he felt like asking. I do not know if mine will be intelligent, but I have the intention of asking a few more.

The Chairman: I must thank Mr. Clermont for having reminded us that we adopted a twenty minutes time limit during our study of the Bank Act. Even if we had not established the same rule now we should remember that it created a very good atmosphere of fairness during our study of the Bank Act. Perhaps we should apply the same principle here.

Mr. Clermont, do you have any more questions to ask?

Mr. Clermont: I still have 2 or 3 questions, Mr. Chairman, which should be asked of the Minister, rather than of his officials. The first question concerns the new tariff on machinery and equipment. Can the Minister of Finance reply to any questions which we might ask with regard to machinery and equipment, or should these questions be asked of one of the officials of the Department of Industry?

The Chairman: You could ask your questions and we will see.

• 1550

Mr. Clermont: Mr. Chairman, it is the Minister of Industry who will be responsible for submitting to the Cabinet and the Governor in Council the applications of companies that wish to import equipment or machinery free of duty if this machinery is not being sold in Canada or if it is in the public interest. You will have an advisory board of five members, the chairman of which will be an outsider. The other four members will be officials of the various departments. You will have also a revision committee formed of three outsiders. Why is there a difference Mr. Minister? It has been stated that the Chairman of the Commission of Revision will be a person who has no interests in export or import of machinery. Why make a difference?

[English]

Mr. Sharp: Mr. Chairman, the reason for this different composition of the two boards is that it was felt if there was a complaint about the original recommendation of the inside board that it should not be reviewed by other civil servants. It should be reviewed by independent outsiders who could take a view which was entirely independent from that of civil servants who are engaged in administrative duties.

[Translation]

Mr. Clermont: Mr. Minister, why did you not adopt the same policy with regard to the Advisory Board? Four officials and one person from outside the civil service will fill in the positions. Then why, out of the three members, should not there be at least one...

[English]

Mr. Sharp: The reason is that we do not think there will be very much difference of view. We believe there will be very few appeals and to establish an outside board would require us really, in effect, to hire them more or less as civil servants. They will have a great many cases to deal with. The appeal board can be outsiders in a much more real sense because they will only be hearing appeals. But we do not except there will be many appeals. We believe that it will be fairly easy to establish the right procedure. This is the logic behind our arrangements.

[Translation]

Mr. Clermont: In another field, Mr. Chairman, I note that, beginning with January 1 and for the months of January, February and March, certain fruit and vegetables will be admitted free of duty. Others will be so admitted for six months instead of three. I hope that those which will be admitted for six months, especially vegetables, will not compete with our Canadian products.

[English]

Mr. Sharp: Mr. Chairman, I suggest this is the kind of detailed question that might be referred to the officials.

The Chairman: Dr. Annis would be in a position to deal with this.

[Translation]

Mr. Clermont: The other question, Mr. Minister. Canada is one of the few countries which has not participated in the Kennedy Round on the basis of 50 per cent all across the board. What are the main reasons for this refusal to negotiate on a 50 per cent basis as I think the United States and other GATT countries have done?

[English]

Mr. Sharp: In my opening statement I dealt with this, Mr. Chairman and perhaps I can put it this way. We are one of the largest importers of manufactured goods in the

world. We are not one of the largest exporters of manufactured goods. Indeed I should think of our trade something between 15 and 20 per cent of our exports consist of fully manufactured goods whereas it must be 60 to 70 per cent—60 per cent of our imports which are manufactured goods.

• 1555

Now on raw materials and on semi-processed goods the prevailing level of protection—that is before the Kennedy Round—was relatively low so that most of our exports which consist of raw materials and semi-processed goods, 80 to 85 per cent of our exports are already enjoying access to foreign markets relatively free of tariffs. Therefore our gains from the Kennedy Round was not likely to be very large in that field; it was important in manufactured goods for our exports now, but it was potentially of very great value to us.

On the other hand, if we had to reduce our tariffs in Canada by 50 per cent, it would have given an enormous advantage to the countries that were supplying us with such a large volume of manufactured goods. Therefore we contended that there was no reciprocity of benefit involved in our adopting the 50 per cent rule. So the rule we did adopt—at least we did propose and it was agreed to by the other countries participating in the Kennedy Round—was that we should offer concessions equivalent in terms of their impact on trade to those offered by other countries.

This was much more a subjective matter. The negotiators had to justify our package in a different way to say the British or the Europeans or the Americans in dealing with one another. Australia, too, negotiated on the same basis as we did. They did not accept the 50 per cent across the board, for exactly the same reasons. That is the reason we differed.

[Translation]

Mr. Clermont: The last question, Mr. Chairman, is directed to the Minister, and I will keep my other questions for the officials of the various departments. The Minister mentioned in his remarks the advantages which the Kennedy Round will give Canada. Does the Minister not have certain apprehensions, following the devaluation of the pound, that some of these advantages will be decreased or cancelled for Canadian exporters?

[English]

Mr. Sharp: To the extent that the devaluation of the pound was not followed by our competitors in the British market the advantages are only reduced by the improved competitive position of producers within the United Kingdom. In other words, our competitive position in the British market remains the same in relation to the United States as it did before devaluation or in relation to the French, the Italians, the Germans or the Swedes. On the other hand, all of us find ourselves in not quite as strong a position in competing with British made goods in the British market itself, or in outside markets where the British are competing with us. But that is inevitable in any adjustment of exchange rates. There is no way of providing against it. One of its principal purposes of the International Monetary Fund agreement is to prevent competitive currency devaluation and the British had to prove to the IMF that they had to reduce the value of the pound sterling. They could not have done it simply for the purpose of improving their competitive position. It had to be because their circumstances and their costs had changed in relation to the rest of the world in order to justify the devaluation that took place. For instance, if the United States—I cannot say the United States, but if France were ever contemplating devaluation they would have to prove it was necessary in the French circumstances, or the Germans, or the Italians or us for that matter, if the circumstance ever arose. Presumably it was because the British were in such serious difficulties; they were not as competitive as they should have been with the rest of the world, or with imports from Canada and the United States and Sweden. That is the only justification for the devaluation.

Mr. Clermont: You said every country wanting to reduce its currency has to prove it. Was that the case in 1962 for Canada?

Mr. Sharp: Yes.

The Chairman: Mr. Clermont, we are starting to stray afield but you have completed your questioning; perhaps we could recognize Mr. Gilbert.

• 1600

Mr. Gilbert: Mr. Chairman, we have had much discussion on assistance to industry and very little or no discussion on the assistance to the employees of the industry and I notice, Mr. Sharp, in the statement of the Prime

Minister he says that there are two areas where assistance will be given, one by way of retraining, dependent on the financial arrangements made with the provinces for retraining, and second, changes to the Unemployment Insurance Act. Could you tell us if any financial arrangements have been made with regard to these special circumstances?

Mr. Sharp: No. I am not in a position to answer the question. You should direct this to one of my colleagues.

Mr. Gilbert: Then there is another question, Mr. Sharp, with regard to the auto pact agreement, the government had what is known as the TAB program and I notice that there is no TAB program with regard to the effect of the Kennedy Round. What is the reason for that?

Mr. Sharp: As I said, Mr. Chairman, I hesitate to wander over into the fields of my colleagues and I think these questions should be directed to one of the other Ministers, either to Mr. Drury or to Mr. Marchand, or to whomever was the Minister of Industry at the time.

The Chairman: Yes. We have the Parliamentary Secretary to the Minister of Labour here and I would ask him to take note of the question regarding the TAB program. And there is a representative of the Department of Manpower and I will be consulting with them so I will be in a position to have the information for the Committee on these subjects.

[Translation]

Mr. Comtois: Mr. Chairman, one question to the Minister. In order to be eligible for an insured loan, the companies have to prove that they have been seriously injured or are threatened to be by the tariff reductions imposed by the Kennedy Round, or else that they have great possibilities for exportations as a consequence of this agreement. Does this apply only to existing companies or also to new firms that would be willing to take advantage of the Kennedy Round?

[English]

Mr. Sharp: I think the answer to the question is, yes, that it is open to new companies that want to take advantage of the new opportunities.

The Chairman: If we have completed our questioning of the Minister relevant to our order of reference, perhaps we may again—

An hon. Member: We will let him off the hook!

The Chairman:—suggest that the Minister be excused, and it may be that this exchange will help lead to a time when we fulfil a function like the Joint Economic Committee of the U.S. Congress and we look into these questions as a matter of regular practice. It is beyond our power at the moment to explore these subjects on a regular basis.

Mr. Hees: I thought the Minister was so anxious to impart knowledge.

Mr. Sharp: May I, before leaving, Mr. Chairman, thank you for inviting me and also congratulate the Committee for the work they have done in preparation for these meetings. I have been impressed by the questions that have been asked and the understanding of the nature of the program, and also finally, to say to Mr. Hees, that I forebear from saying I was busy on government business but I say it now.

Mr. Hees: Could I ask one last question? Before the Minister leaves, would he like to give us a pre-run of the Thursday show?

The Chairman: That is outside of all your reference!

Mr. Hees: It was just a question, Mr. Chairman. You cannot blame a fellow for trying!

The Chairman: We will excuse the Minister.

• 1605

As you know the Minister of Trade and Commerce will be with us tomorrow afternoon at 2.30 p.m. In the meantime we will be hearing from officials dealing with certain specific programs I would suggest to the Committee that we begin by hearing from Mr. J. J. McKennirey, Director of the Machinery Branch with respect to the machinery program to be followed, if we have time before tomorrow afternoon by Mr. H. H. Wright, Industrial Policy Adviser, on the industrial assistance program.

Mr. McKennirey, perhaps you and your colleagues would take your places here.

Mr. Macdonald (Rosedale): I hate to see Messrs. Annis and Grey departing.

The Chairman: I should explain to the Committee it was my view that it would be a more orderly way of looking at this if we heard from them after we heard from Mr. Winters dealing with export benefits and we

would also be in a position to hear from Dr. Annis without interruption on what may be a rather lengthy voyage through the Kennedy Round resolutions. I thought this would be more practical because these are more precise items on our Agenda. Mr. McKennirey, whenever you are ready to proceed.

Mr. J. J. McKennirey (Director, Machinery Branch, Department of Industry): Mr. Chairman, I propose, with your permission, to deal briefly with the range of machinery covered by tariff item 42700-1 and then to summarize the advantages of the proposed item for both manufacturers and users of machinery.

I would also mention that our Minister, Mr. Chairman, provided a detailed statement on the machinery program under tariff item 42700-1 to the House of Commons on January 12 and we have some copies of the statement with us if the Committee members would like to have them for ready reference.

The Chairman: I believe I requested the Clerk to have these distributed and it may be the members are already provided with them. Am I correct in this gentlemen? If not, we can have the additional copies distributed.

Are we ready to proceed? Are the members provided with the material in question?

Mr. McKennirey: I do not propose, Mr. Chairman, to review that statement now but from time to time I think we will be referring to paragraphs in it because, as I say, it is detailed and every effort was made by the Minister to make it as definitive as possible.

Now, to proceed with the coverage of tariff item 42700-1, probably the easiest way to approach that subject is to recall that, broadly speaking, tariff items for machinery in the customs tariff fall into two general categories. In the first category are those tariff items that cover specialized machinery for use in the resource industries or for use in certain industries that have received special consideration. These are frequently referred to as end-use tariff items or *eo nomine* tariff items. The second category comprises those items that provide for machinery not otherwise provided for in the tariff and, I am sure members of the Committee are familiar with that and the expression "machinery, n.o.p." And the tariff item 42700-1 that is proposed was basically aimed at dealing with the broad range of machinery that comes in under the machinery n.o.p. items. Now, the tariff item 42700-1 deals with machinery n.o.p. which

comprises 45 per cent of Canada's total machinery imports. Agricultural machinery accounts for 28 per cent and machinery for certain end uses and those *eo nomine* purposes account for the balance, that is 27 per cent. So, for the information of the Committee we are talking about 45 per cent of Canada's total machinery imports.

• 1610

Now, the range of machinery in the n.o.p. item is very broad. In fact, in the DBS listings of imports by commodity class, machinery and equipment of the kinds entering under 42700-1 are distributed over 356 commodity classes. However, the great bulk of importation under the proposed item is covered by 112 DBS commodity classes. This gives you some idea of the breadth of it. Some of the kinds of machinery involved are as follows and I will just mention a few of them to give you some idea of what we are talking about. There is general purpose machinery, that is power pumps, commercial refrigeration, air and gas compressors, ventilating exhausts, dust collecting machines, bottling, washing, can washing, packaging machinery, and there are many more kinds. Then there is metal-working machinery and tools, drilling and boring machines, forging and stamping machinery, lathes, milling machines, presses and the list goes on. Portable power tools, specialized industry machinery—that is machinery for the pulp and paper industry—woodworking machinery, food processing machinery, rubber tire and tube building machinery, glass industries machinery, shoemaking machinery, chemical, electrical and electronic industries machinery. Then there is materials handling machinery which includes cranes, hoists, derricks, winches, conveyers, lift trucks. All range of service industry machinery: the commercial laundry machines, commercial dry cleaning machines, vending machines, motor vehicle and aircraft maintenance, servicing and repair machines. Then, in the range of construction, excavating and loading machinery, mixing and paving machines, plaster and mortar mixers, road sweepers, concrete batching machinery and so on. As I say, the list covers 112 commodity classes. I only provided those as an indication of the range of products covered in this basket item.

The two major tariff items being replaced by 42700-1 are 42701-1 which covers machines n.o.p. of a class or kind made in Canada and 42720-1 covering machines n.o.p. of a class or kind not made in Canada. Now, those two

basket items account for 80 per cent of the imports covered by the proposed new tariff item. An additional 16 tariff items are also replaced by tariff item 42700-1 both to achieve greater consistency and simplicity in the tariff provisions for machinery and to increase the scope and effectiveness of the machinery program.

The practice has been to refer to the introduction of tariff item 42700-1 and the provision for remission thereunder—which we will talk about in a minute—as the machinery program. If you hear me using that phrase you will know what I am talking about.

The basic objective in developing tariff item 42700-1 was to deal with the broad range of machinery in such a way as to reduce capital cost to machinery users and, at the same time, provide the maximum incentive which could be obtained from the tariff for machinery manufacturers. As you know, the new tariff item 42700-1 provides for common rates of duty on all machines classifiable thereunder. That is, 2½ per cent British preference and 15 per cent MFN. The tariff item states that remission of duty may be granted by the Governor in Council on the recommendation of the Minister of Industry when such remission is in the public interest and the machinery being imported is not available from production in Canada. By using this approach the incentives which the proposed tariff item 42700-1 provides for machinery producers can be maintained without, as I have mentioned, increasing costs of machinery not available from production in Canada.

The incentive to machinery manufacturers is, as the Minister explained in his statement to the House on December 12, threefold. First, a substantial tariff, that is, 15 per cent MFN, has been retained on the great bulk of machinery imports compared with the competitive tariff rates in other industrialized countries. By the way, 90 per cent of our imports under tariff item 42700-1 are from MFN countries and of that 90 per cent, 89 per cent are from the United States.

It might be noted that the margin of protection over MFN imports remains the same as it was previously. That is, the old rates were 22½ per cent for made in Canada and 7½ per cent for not made in Canada so that the difference is 15 per cent. Under the new program the rate is 15 per cent and where remission has been granted the rate, of course, will be reduced to zero so that the margin remains at 15 per cent.

• 1615

The second advantage to machinery manufacturers is that the rate of 15 per cent will apply to machines as soon as they are available from Canadian production. Under the present tariff provisions the maximum protective rate does not apply until Canadian manufacturers are supplying 10 per cent of Canadian consumption.

The third advantage to machinery manufacturers is that they will find it easier under tariff item 42700-1 to import production components of a kind not available from Canadian sources which will, therefore, reduce their cost of production.

The advantage of the machinery program to users of machinery is of course quite clear. They will be able to import machinery not available from production in Canada free of duty and this will reduce their machinery costs by an estimated \$45 million per annum.

A final advantage of the new program which applies to both manufacturers of machinery and users is that the proposed new approach will eliminate the uncertainty and often costly and time-consuming litigation caused by the use of class or kind made in Canada and not made in Canada categories of machinery.

Mr. Chairman, that is a brief introductory summary of the coverage of the tariff item and the advantages which are expected from it. Would you like me to stop at this point or should I proceed with a brief outline of the proposed procedure for granting remission?

The Vice-Chairman: What is the opinion of the Committee on this?

Some hon. Members: Proceed.

Mr. McKennirey: In that case I will refer you to page 8 of the statement the Minister made. I believe you have mimeographed copies but in any case I will read it. It states as follows:

The procedure for dealing with application for remissions of duty on machinery is straightforward. Importers who find that their machinery requirements are not available from production in Canada may apply to the Minister of Industry for a remission of duty, either before or after actual importation takes place. These requests will be referred to a Machinery and Equipment Advisory

Board established by the Governor-in-Council pursuant to the Department of Industry Act, composed of a Chairman with broad experience in commercial policy, and the Deputy Ministers of Finance, National Revenue, Trade and Commerce, and Industry. The purpose of this Board will be to advise the Minister of Industry regarding the eligibility of machinery for remission of duty in accordance with the provisions of Item 42700-1. The Minister of Industry will, in turn, advise the Governor-in-Council who will have final authority in granting remission.

The Machinery and Equipment Advisory Board will proceed on a practical basis, rather than the present legalistic and formal approach

[in matters of class or kind distinction].

Its findings will be based on facts of the case and on practical considerations. In evaluating applications, the Board will be assisted by the specialized branches of the Department of Industry which will carry out the factual and analytic back-up work.

In considering applications for remission, the Advisory Board will have regard for two basic tests. First, it will want to know whether the machinery being imported is available from production in Canada; and Second, it will wish to satisfy itself that it is in the public interest to recommend that a remission of duty be granted. The criterion of availability in Canada is to be understood as follows: Machinery is to be deemed available in Canada if at least one manufacturer has proven capability to manufacture machinery which, insofar as its range of physical qualities, operational characteristics and efficiency are concerned, is reasonably equivalent to the machinery for which relief of duty is being sought.

Proven capability may be deemed as existing in Canada if:

(a) the full range of technical and physical capabilities necessary for production of the machinery for which remission is sought exists within the normal operational framework of at least one manufacture; and

(b) such facilities have in fact produced machinery which, in the judgment of the Board, has demonstrated a production competence reasonably equivalent to that required to produce the machinery for which remission is sought.

• 1620

The Minister went on to explain:

The criterion of public interest will be applied, in its broadest sense, in relation to the main objective of the machinery proposal, namely, that of encouraging the development of efficient Canadian industry. It is understood that, in the main, importations of machinery contribute to the maintenance, improvement, and expansion of efficient industrial activity in Canada. In the typical case therefore, remission of duty would be regarded as being in the public interest in cases where such machinery is not available from production in Canada. Such remission would assist manufacturers to be more competitive by reducing their capital costs. There may be instances, however, where the Machinery and Equipment Advisory Board finds that the policy or practices of an applicant firm are clearly inconsistent with the development of efficient Canadian industry. In such exceptional instances, the Board may advise the Minister that remission is not in the public interest.

Provision is being made for appeals from the findings of the Machinery and Equipment Advisory Board in respect of applications for remission of duty.

Appeals will be referred to a Review Board composed of three members from outside of government. Such a Board will be established by Governor-in-Council pursuant to the Department of Industry Act to deal with cases as and when they arise. The Chairman would be selected because of the disinterested vantage point which his experience and position in the community would enable him to take, and the two other members may be drawn from those sectors of industry, that are important users and manufacturers of machinery. The Review Board, like the Advisory Board, will be expected to take a practical rather than a legalistic view of the case.

When the Machinery and Equipment Review Board is of the opinion that remission should be granted in any case in which the Advisory Board has recommended to the contrary, the Minister of Industry would normally accept the Review Board's findings and recommend remission to the Governor-in-Council.

In any case, where the Review Board supports an appeal that relief of duty should not have been granted, the Advisory Board will be guided by the Review Board's findings in respect of future applications for remission on the machinery in question. However, such an opinion could not be regarded as a firm precedent, since the facts about availability of machinery from production in Canada will be constantly changing.

Mr. Chairman, that is the machinery program and probably this would be the best time to ask questions.

The Vice-Chairman: Are there any members who would like to ask questions? Mr. Mackasey, and then Mr. Lambert.

Mr. Mackasey: Mr. Chairman, my question is rather a specific one. When you were listing general machinery there was no mention of the broad range of machinery that is known as printing machinery for the printing industry. Does that fall in with this?

Mr. McKennirey: No, sir; there is a special tariff item for printing machinery.

Mr. Mackasey: Which will be maintained?

Mr. McKennirey: Mr. Annis will answer that question.

Mr. Annis (Director of Tariffs, Department of Finance): This is not a complete answer, but it is a nearly complete answer, I think. The main printing machinery items now are presses. A good many of them are dutiable at 10 per cent *ad valorem*. There is provision for free entry already of some specific kinds of ancillary printing equipment.

The Tariff Board report on printing machinery and equipment was made not very long ago and recommended a revision of the items in question. This revision would involve a very substantial extension of the free entry provision. The effect of this would be that the major types of printing presses would be moved from 10 per cent to 3 per cent.

Mr. Mackasey: How long will it take for this revision?

Mr. Annis: I beg your pardon?

Mr. Mackasey: When would this revision come into effect?

Mr. Annis: The expectation is that it would come into effect next July 1. One particular item, the text of which is rather long and I would not look it up or try to read it to you, was inserted in the Kennedy Round schedule with the provision that it would come into effect providing for free entry as of July 1. It would not be practicable to do that in advance of the general and rather more extensive revision of the machinery and equipment items that are envisaged. In other words, that was our reason for holding this change until July 1.

Mr. Mackasey: Mr. Chairman, the reason I have emphasized the printing industry is because this industry has in the past been very hard pressed to compete with the United States printers, and traditionally we import a great deal of our printed material into this country. The printers in Canada have operated under tremendous hardships because the equipment in general comes from outside the country.

I asked that question specifically because in reviewing other changes, particularly 197501 and 198101 which refer to fine papers used in the printing industry, I see a fairly substantial decrease over five years in the duties charged against papers coming into Canada despite the fact that at the present moment we have a depression in the fine paper industry in this country. It seems to me that we are singling out an industry and giving it both the bad ends of the stick in the sense that it is already suffering from imports, tremendous imports, and now we are making the raw materials coming into this country from the United States, particularly fine paper, even more competitive with the fine paper industry in Canada. On top of that we had retained, until I got that explanation, a fairly substantial tariff on production machinery which makes it very difficult for the industry in this country.

• 1625

Mr. McKennirey: Mr. Chairman, I am not familiar with the whole background of the printing industry machinery and the Tariff

Board report on it. I do not know; I cannot comment.

Mr. Annis: Mr. Chairman, might I add one word? I might add a word just to make sure that we are not speaking at cross purposes. When I was referring to printing machinery I was referring to the machinery that would be used by a printer, not the paper making machinery. The paper making machinery is under the machinery plan.

Mr. Mackasey: No, I agree with you and I understood your answer. At the same time I mentioned fine papers, which again is a specialized type of paper used by the printing industry in the production of brochures, advertising material and that type of thing. Now, our Canadian firms such as Domtar and Abitibi and others are hard pressed in this field at the present moment because of imports. At first glance these changes will make their position even less competitive. This is why I asked you about the machinery, could it be offset that way.

Mr. Annis: Yes, and at a later stage presumably you will want to talk about the tariffs on fine papers. There are tariff reductions which will be staged over the five year period.

Mr. Mackasey: Well, could I ask one final question.

Mr. Annis: But that is a matter for the future.

Mr. Mackasey: You stated you intend to revise the policy on printing machinery. Is there any way this can be brought into effect before the July date?

Mr. Annis: I do not think it would be practicable to do so because what we are dealing with here is a complex of machinery and ancillary equipment. The recommendations by the Tariff Board involve a substantial number of changes, some of which will involve some renegotiation of existing items, or affect existing items, and it was felt that it would be best to deal with it in a package.

Mr. Mackasey: Would they be from all countries or just some countries?

Mr. Annis: Well, when I spoke of the 10 per cent rate I was referring to the rate against Most Favoured Nation countries. It is free under the British Preferential Tariff on that particular stuff.

Mr. Mackasey: Thank you very much.

The Chairman: Mr. Lambert is the next name on my list.

Mr. Lambert: For purposes of clarification, Mr. Chairman, am I right in saying with respect to machinery that there will no longer be any appeals to the Tariff Board for rulings as to whether they are of a class or kind made in Canada?

Mr. McKennirey: That is right, that is for machinery that is covered by 42700-1.

Mr. Lambert: Yes.

Mr. McKennirey: But there could be appeals whether or not a particular machine was covered by 42700-1 or covered by another tariff item in the customs tariff schedule.

Mr. Lambert: Well, if the Tariff Board were to rule that the machine in question were to come under 42700-1, then that is the end of their deliberation.

Mr. McKennirey: That is right.

Mr. Lambert: And there is no further appeal then from the Tariff Board to the Exchequer Court?

Mr. McKennirey: No sir.

Mr. Lambert: Therefore, for the bulk of the machinery, as you indicated, we are now away from the Tariff Board and from the Exchequer Court and we are into the machinery advisory board and to the review board from who there is no appeal.

Mr. McKennirey: Yes, sir.

Mr. Lambert: Therefore, when you say that the Governor in Council will have final authority in granting remission there is no appeal from Cabinet?

Mr. McKennirey: I do not think that was a completely accurate statement, Mr. Chairman. The point is that continued recourse could be had to the Cabinet again, although, as you say, they might not wish to reconsider it a second time. There is a political process that could be invoked indefinitely.

Mr. Macdonald (Rosedale): But not to the courts?

Mr. McKennirey: But not to the courts.

Mr. Lambert: Well this is what I am after. The determination of whether the machinery

is of a class or kind made in Canada or not made in Canada which is not now subject to legal determination?

• 1630

Mr. McKennirey: That is right.

Mr. Lambert: This might be more directed to the Minister of Industry. Have representations been received with regard to the potential effects of this change in procedure?

Mr. McKennirey: Yes sir. The proposed machinery program was the subject of quite extensive discussions with a number of associations of machinery builders. As you probably will recall, there have been a number of recommendations made to the government over the years to try to find a more practical solution to this problem of solving the disputes over "made in Canada" and "not made" distinctions. Some of the recommendations which have been put forward to the government, including the Canadian Manufacturers Association brief of last year, recommendations which are very similar to those being proposed here.

The problem in the past has been in determining whether or not machinery was of a class or kind made in Canada, the courts were bound by legal definitions and problems in semantics as to how broad or how narrow a class is. The expectation now is that the decision whether or not a machine is available from Canadian production can on a practical basis having regard to what the machine actually does for the industry that is importing it.

Mr. Lambert: I think we may be wanting to come back to that point. My next question is directed towards the meaning of availability. In the past there had to be a productive capacity of 10 per cent of the requirement in order to be considered to be of a class or kind made in Canada and available in Canada. Now it is that there is one firm, there is no quantitative quota or yardstick to be met. And if I read correctly elsewhere, this is not only that they are actually making this machinery, but that they could make the machinery.

This brings up the difficulties of regional requirements and regional capabilities. We have run into this with, for instance, specialized machinery, lumbering machinery made in British Columbia. There might be a requirement for a similar type of machine in

Ontario, yet the cost of obtaining this machinery in British Columbia and bringing it to Ontario makes it too costly and it is not, in a true sense, available. This is one of the yardsticks that applied before. Now, will this again be a limitation that if somebody in Halifax makes something, and we out in Alberta or somebody in British Columbia will be caught by the determination that this is available in Canada, or that there is a firm in Canada able to make this machinery and therefore it is of a class or kind made in Canada.

Mr. McKennirey: There are two parts to the answer. First of all, in the previous arrangement, if 10 per cent of consumption, for example, had been supplied on one side of the country and then the item was ruled "made in Canada", the problem would still obtain for the person on the other side of the country. So the problem could still exist. That is one thing and you will always have that problem.

The other side of this answer is that a great deal of representation has been made to the government over many years by manufacturers of custom engineered machinery in Canada. The problem of demonstrating that your 10 per cent of Canadian consumption is, in fact, sometimes impossible because the machine has never before been built in Canada, or conceivably never been built anywhere in the world. In that respect the law was virtually unworkable.

• 1635

There are quite a few companies in Canada who have built up a custom engineered machinery production capacity, and they are the ones particularly who have suffered from the uncertainty when they were bidding to supply Canadian machinery users whether or not they would be getting the advantage of the protective rate, even though they had the capacity to supply. It is indeed in that area where the most difficult problems have arisen with respect to administering the class or kind distinctions.

I might even amplify the unavailability further, Mr. Chairman. If the board was faced with a case where Canadian production capacity was clearly not equal to the demand that was being made, it would be up to the board to decide, but I expect that in some instances they would regard it as a matter of limited availability. The board, under this particular program, has a great deal of discretion in the matter. The objective is to provide protection for Canadian production

capacity in the machinery field where it actually exists without, at the same time, penalizing users of machinery unnecessarily where clearly no purpose for the Canadian machinery industry is served.

Mr. Lambert: Is the time of delivery an element of availability?

Mr. McKennirey: Delivery would not normally be considered a factor by the board, I do not believe.

The Chairman: Excuse me, do you mean if they cannot deliver a product for, say, five years and the company needs it in two months this will not be taken into account?

Mr. McKennirey: Mr. Chairman, I said not normally. The problem here is that the importer could always argue that the delivery offered to him by the Canadian supplier would take too long, and therefore seek remission, and if he wanted to make a case he might just postpone attempting to get the machinery until the last minute. It must be remembered that the premium for getting early delivery if availability is deemed to exist in Canada would only be 15 per cent. Assuming, for example, that the prices were the same in the United States and Canada and the purchaser has the opportunity of either buying in Canada and waiting say some months, buying at 100 or purchasing from the United States at 115.

Mr. Lambert: One last point on the question of public interest. Now that is a fine-sounding phrase, but what yardsticks are to be used in determining what is public interest? Has there been any thinking about this or is this something that the boards in question and the Governor in Council will have to determine on an ad hoc basis?

Mr. McKennirey: Mr. Chairman, I have, I think, three basic paragraphs here which I would like to just read into the record:

The immediately evident reason for including the criterion of public interest in Tariff Item 42700-1 is that it is an indispensable condition for government action. For example, public interest is the only criterion cited in Section 22 of the Financial Administration Act which authorizes the Governor-in-Council to remit any tax, fee or penalty on the recommendation of the Treasury Board.

Thus, specific reference to the criterion of public interest in Tariff Item 42700-1 is

not to establish particular limits or guidelines which the Governor-in-Council must observe but, rather, to recognize the government's authority to apply the provisions of that tariff item in respect of any situation which may arise, in a manner compatible with the government's overall responsibility to ensure that the public interest is served.

In view of the Machinery Program's basic objective to encourage the development of efficient Canadian industry, the criteria of public interest and availability would normally be complementary. However, there may be circumstances in respect of certain applications for remission where it does not necessarily follow that the public interest would be served by granting remission where the machinery in question is not available.

• 1640

Some fairly non-controversial examples would be a case where an applicant is importing machinery, or an investigation in pre-emptive dumping of the same type of machinery is in process; or an applicant has been found in conflict with some government statutes; for example, anti-dumping laws under the Combines Investigation Act. But the Governor in Council could, of course; this will be up to the Governor in Council's judgment here as to when the criterion of the public interest should be invoked. But it was not to establish any specific guidelines; I think this is the main point.

Mr. Hees: When you say the Governor in Council do you mean that appeals are going to go through the Cabinet as a whole? The Cabinet is going to ponder these questions? There may be a very great number of them.

Mr. McKennirey: Well, the procedure is that the applications which do come in in considerable numbers each day will be reviewed by the Machinery Branch in the Department of Industry, which has a data bank that provides information on the total production capabilities and types of products that are available from the Canadian machinery industry. This is staffed with some people with engineering competence and they then advise this Machinery Advisory Board as to the availability of the machinery in Canada.

The Machinery Advisory Board reviews these findings on a very frequent basis and

would advise the applicant for remission that remission is being granted or otherwise. The two sources of complaint could be where the applicant for remission is denied or where the Canadian machinery manufacturer feels the remission should not have been granted. In the first instance where the application has been denied, the applicant for remission could come back to the Board and say, why is it you believe that this machinery I am importing is available from Canadian sources? At this time he would be thoroughly briefed on the reasons why the Machinery Board concluded that the machinery was available from Canadian production.

Now, he would be free to discuss this at great length and if he felt, at the end of this discussion, that he still should be granted remission, he could ask the Minister of Industry to set up an independent review board to look into the case again. In this event the independent review board would review the case then advise the Minister of what they thought, and if they found that remission should be granted in their view, the Minister of Industry would normally advise the Governor in Council to grant remission.

Mr. Hees: How many of these would you expect might go to the Cabinet in a year?

Mr. McKennirey: First of all, all of the remissions will be granted by Governor in Council. What happens is that the procedure has been established whereby the Minister of Industry advises the Governor in Council on, say, something like a weekly basis or less: we have received 200 applications, here are all the findings and I would advise on the basis of the criteria set out in the Tariff Item 42700-1 that remission should be granted.

In any case where the Minister felt that the application for remission was one that involved very substantial considerations, he would probably bring it to attention of the Governor in Council and it would be given some detailed thought.

The Vice-Chairman: If I might just intrude here, Mr. Lambert actually completed his period of questioning. The next name on the list is Mr. Macdonald and I think in fairness to him, unless he wishes to yield for a few supplementary questions, we should give him the floor.

• 1645

Mr. Macdonald (Rosedale): If Mr. Hees wanted to finish his questioning, I would be happy to go after that.

The Vice-Chairman: Mr. Hees?

Mr. Hees: Knowing how Cabinet is always short of time and under tremendous pressure to deal with the most important matters in the country, it seems to me rather extraordinary that they are going to load the Cabinet with a potential series of matters that should take up considerable time, if the Cabinet is going to do its job properly, to decide whether or not remission of duty should be allowed on importation of machinery.

It seems to me that it would be infinitely better that any appeal instead of going to Cabinet should go to the Exchequer Court or some body of that kind. I have been a member of the Cabinet and I know there is a tremendous pressure of business on Cabinet Ministers at all times, and to put a detailed matter like this into their laps in addition to what they have at present or what they will have in the future I think is a very unsound practice.

Mr. McKennirey: I think it was a question of responsibility. I believe the Minister, in discussing it with other ministers, felt that in view of the objective to keep the program on a practical basis, to avoid any type of legalistic disputation with applicants for remission, the matter of availability or non-availability could be worked out by officials quite well and they in turn would then be apprising the Machinery and Equipment Advisory Board—which, again, is civil servants—and that there would not be much necessity for taking up the Minister's time with the cases from week to week.

But nevertheless the responsibility for remitting the duties still should rest with the Governor in Council. I think in practice it is going to be very, very time consuming and unfair to the Cabinet.

The Vice-Chairman: Mr. Macdonald?

Mr. Macdonald (Rosedale): Mr. McKennirey, what happens to the mass of "made in Canada" or "not made in Canada" rulings obtained by blood, sweat, toil and tears over the years past?

Mr. McKennirey: They no longer apply to the machinery coming in under 427001, but love's labor has not been completely lost inasmuch as the administration of the replacement parts for such machines is being set up on an automatic basis with reference those classic kinds of rulings that were established.

Mr. Macdonald (Rosedale): With regard to some of these machines, will the importers then have to go through the procedure of getting availability as opposed to class or kind rulings now on all of them?

Mr. McKennirey: They do not get a ruling as such. The rate is statutory, 15 per cent, and the importers, however, can make application to the Board for the sake of administrative simplicity to cover, for example, six machines, or a dozen machines that they may import during reasonable period in the future. The Board may then recommend remission so that you would not be repeating the process day in and day out.

Mr. Macdonald (Rosedale): It is true that you have established a \$500 threshold for applications for remission?

Mr. McKennirey: Yes, that is true.

Mr. Macdonald (Rosedale): What happens when you bring in replacement parts for a machine on which you have made an application such as a newsprint machine for which you bring in two or three replacement parts? You automatically have to pay the...

Mr. McKennirey: No. What will happen is that if an applicant applies for remission on a machine which he is bringing in after January 1, 1968, he will get remission for that, if remission is granted. Remission will be granted not only for the machine but for replacement parts for a three-year period thereafter.

Mr. Macdonald (Rosedale): What about small items under \$500 in value and over a period of time, virtually identical items may be brought in? Presumably you cannot get remission on the first one and you will never be able to get a remission on them. In other words, there are certain small types of machinery which you are putting out of...

Mr. McKennirey: No, actually the \$500 threshold applies to the application for remission rather than to the value of the item. Therefore, if an importer—say a distributor—who is importing some type of machine which only had a value of, say \$60, and he imported a thousand of them. He could put them all on one application and then he only would pay duty on the first \$500, the value for duty of that application. The purpose was to encourage that type of bunching to get away from this administrative...

• 1650

Mr. Macdonald (Rosedale): Is that not going to compel Canadian importers to hold unnecessarily large inventories?

Mr. McKennirey: No, actually you can apply for remission and bunch the items you are importing on one application, but you do not have to import them all at the one time. You can get remission of duty granted prior to remission for, say, a year's supply, and then bring them in as you require them.

Mr. Macdonald (Rosedale): Turning to page 10 of the Minister's statement, the two criteria for proving capability. The second one would seem to indicate that the manufacturer must have produced one such machine in Canada without tariff protection. Is that right?

Mr. McKennirey: No, that is not the intent, Mr. Chairman, it is a question of production competence. For example, if a man has made a paper making machine and the skills and facilities required to do that are such that he could make a paper making machine of yet another type, while he may never have done it, that other type would be regarded as being available.

Mr. Macdonald (Rosedale): In other words, he does not have to produce a machine relatively identical. It could be one that was very much smaller, in fact, not similar at all. He just has to show that he has an engineering competence.

Mr. McKennirey: That is right, and that he is willing to supply.

Mr. Macdonald (Rosedale): Are you satisfied that the proceedings which would take it out of the courts will be beyond the reach of things like prerogative writs, such as *certiorari* and other writs which are available and which can be taken in the proceedings of other administrative tribunals in the courts?

Mr. McKennirey: We have reviewed the proposed program in detail with the Department of Justice and they have not seen cause for alarm in that respect.

Mr. Macdonald (Rosedale): That is fine. Thank you, Mr. Chairman.

The Chairman: Mr. Wahn?

Mr. Wahn: Mr. Chairman, I gather from the prescription of availability for the purpose of determining whether or not you are

entitled to remittance of the tax, as appears on pages 9 and 10 of the statement by Mr. Drury, is that machinery is deemed to be available in Canada if at least one manufacturer has proven capability to manufacture the machine. It goes into further detail on page 10 and states that proven capability is deemed to exist if there is the technical competence and the physical capability to make it. What would be the situation, Mr. McKennirey, where there was the physical ability to make the machine, but in point of fact delivery could not be made, perhaps because of orders already received. Would the importer in those circumstances be able to import the machine from the United States, for example, or from some other country, and get the refund of duty if, as a commercial matter he could not acquire the machine in Canada from this one Canadian manufacturer because of prior orders?

Mr. McKennirey: Mr. Chairman, on that question, the Board of course, is the only body in a position to supply an answer, but I can attempt to volunteer an opinion. If the customer has a fairly immediate requirement and the Canadian suppliers are booked solid for a length of time which makes it impossible for them to supply, then you would be imposing a burden on the company requiring the machine, and I think the Board would probably deem that the physical capability to supply did not exist.

• 1655

Mr. Wahn: So actually, for this very reason you could have a situation—I do not think this would be hypothetical—where a Canadian manufacturer, producing the identical machine might just refuse to accept any further orders because of outstanding orders. That could happen. In all fairness, in those circumstances, is it your view that the Canadian importer could get a remission of the duty?

Mr. McKennirey: Yes, I believe that the Board would likely judge that the capability to supply did not exist, at least not in the time frame that—

Mr. Wahn: So, in your view, commercial considerations could be taken into account by the Board. There is an Advisory Board which is really a ministerial board. Is it the intention that the decision of the Advisory Board be published?

Mr. McKennirey: Yes, sir.

Mr. Wahn: They would be public property; and similarly the decisions of the Review Board would be published?

Mr. McKennirey: Yes, sir.

Mr. Lambert: May I interrupt Mr. Wahn? Mr. Chairman, Mr. McKennirey told me that delivery dates would not be one of the yardsticks with regard to availability. Perhaps I failed to express myself clearly.

Mr. McKennirey: First of all, the statement that is made repeatedly is that delivery would not normally be a consideration. However, it becomes a question of whether or not the capability to supply really does exist. If the Canadian production capability is booked for a long period ahead and the Canadian company that requires a machine is then either forced to wait for an impractical length of time, or alternatively, to pay the 15 per cent premium to get the machine from the United States, the Board, I expect, would probably come down on the side of limited availability and say that the capability to supply in Canada is limited, or it is completely booked for a long time in the future, and to grant remission to the applicant would not erode the protection that was intended to the Canadian machinery manufacturers.

Mr. Lambert: Thank you.

Mr. Wahn: The hearings, I suppose, before the Advisory Board certainly would not be in public, but is it contemplated that the hearings before the Review Board be public? In other words, would the hearings be public or would they be private hearings?

Mr. McKennirey: I think the Minister and the Board would determine whether or not the interests of the parties involved would best be served by having public or private hearings and would make a decision on that basis. For example, in the case of the Advisory Board, applicants for remission can come in and seek remission before they have made a final decision to purchase. There is commercial confidentiality involved in that, generally, they would not want their investment plans disclosed. Consequently, it is not expected that the proceedings of the Advisory Board would be made public at the time they were taking place. However, the proviso in the tariff item requires that the remissions that are being granted be registered in public

accounts. More than that, we have also told the machinery industry that they would be kept fully informed as to where remissions were being granted without, again, divulging commercial confidentiality, so that they could be assured that the protection which was intended for them is being maintained. Once an applicant for remission, or a machinery manufacturer, becomes dissatisfied with the outcome of his dealings with the Advisory Board and feels that there is a basis for an appeal, in most cases probably the matter of commercial confidentiality would no longer be involved and there would be no good reason for attempting to continue this in camera.

• 1700

Mr. Wahn: I can see how under the old system where you had to make difficult distinctions between items as to class and kind, legalities might creep in, but we are talking about availability and public interest, which are rather different tests. Is there some strong feeling that an ultimate appeal to a court of law would in some way hamper or hinder this program? I am thinking of an ultimate appeal now, say, from the Review Board.

Mr. McKennirey: Right. The process of reasoning that went into the development of the program was as follows: The original intent of the class or kind distinctions was to provide a measure of protection for the Canadian machinery manufacturers and at the same time not impose an unnecessary burden on importers of machinery not available in Canada; consequently, the "made" and "not made" distinctions were introduced in the tariff. For many years the tendency was to make these distinctions on a practical basis, however, as the rates of duty between the two classes broadened, it became very worthwhile for importers to contest in the courts the "class or kind" distinctions. The courts then, of course, were bound to observe the legal definitions and to base their judgments on those definitions rather than on any practical common sense basis. The intent of the machinery program is to go back to the original intent of the "made" and "not made" distinctions in the tariff. As I understand it the ministers who first introduced the "made" and "not made" distinctions in tariffs stressed the fact that the intent was, as I say, to provide some protection to the machinery industry without burdening the rest of the Canadian manufacturers.

The Chairman: It is now a few minutes after five o'clock and as we agreed, when

considering our arrangements, that we would adjourn this week at five, I would suggest that we adjourn until tomorrow morning to complete our questioning of Mr. McKennirey and his colleagues on this machinery program.

Mr. Wahn: I have completed my questioning in any event.

The Chairman: I therefore declare this meeting—yes?

Mr. Hees: Perhaps it is too late to suggest it now but knowing that there are a lot of things we want to discuss could we perhaps start at 10 in the morning instead of 10.30?

The Chairman: It creates a problem for tomorrow because some members have had to leave for other engagements or other meetings and they are under the impression that the meeting is at 10.30. Perhaps you could bring this up tomorrow morning and for the balance of the week we might agree to meet at 10 o'clock.

Mr. Irvine: Mr. Chairman, you say for the balance of the week. Are we going to meet right through until Friday or Saturday? I believe the original time was Thursday.

Mr. Hees: I think it was Tuesday, Wednesday and Thursday.

Mr. Irvine: I think we should know this for purposes of airplane reservations.

The Chairman: What I suggest we do is to see how we are getting along by the conclusion of our proceedings tomorrow afternoon and then we might decide whether or not we want to try and sit Friday. Perhaps we will agree to do this, because we seem to be making quite a bit of progress. Let us say Friday morning at least or we may decide to adjourn Thursday afternoon until the following week.

Mr. Hees: Do you have any idea when it is proposed to bring this up in the House for discussion? I was under the impression before we left for Christmas that the reason for meeting this week was to enable it to be brought up in the House next week. I am not making a point, I am just asking for information.

The Chairman: If the Committee is disposed to complete its consideration by the end of the week then it could be brought up, but I do not see how it is possible because we

have eight briefs from outside bodies to hear or at least to consider. Certainly I am sure that the government and the House would be quite happy to deal with it next week, but we may as well be realistic.

Mr. Hees: I just wondered what the plan was.

The Chairman: Mr. Clermont.

Mr. Clermont: Is Mr. Hees through? We have to keep in mind that the notice said Tuesday, Wednesday and Thursday.

Mr. Hees: That is what I thought.

Mr. Clermont: If we continue into Friday some members of this Committee would, no doubt, have other commitments.

The Chairman: As far as the notice is concerned, I do not think that this would have the same weight as the record of our proceedings when we discussed whether or not we

should meet this week. I will have to review exactly what was said at that time. All I am saying is that we should discuss this at the close of our business tomorrow when we will have a better idea of the progress we are making and we will be able to decide at that time whether we should adjourn on Thursday until the following week or at least try to meet Friday morning.

Mr. Clermont: Yes, but you cannot ignore the notice Mr. Chairman. We were advised that we would sit on Tuesday, Wednesday and Thursday. Personally, I can be available, but we have to be prepared to see how the other feel. The notice said Tuesday, Wednesday and Thursday.

An hon. Member: That is right.

The Chairman: I will have to review the notice in our Minutes. You may have a very good point and we will look at it tomorrow. This meeting is adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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ALISTAIR FRASER,
The Clerk of the House

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1968

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

WEDNESDAY, JANUARY 17, 1968

RESPECTING

Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

From the Machinery Branch, Department of Industry: Mr. J. J. McKennirey, Director; Mr. J. H. O'Connell.

The Hon. Robert H. Winters, Minister of Trade and Commerce; *From the Department of Trade and Commerce:* Messrs. M. Schwarzmann, Assistant Deputy Minister (Trade Policy); T. M. Burns, Director, Section II, Office of Trade Relations; R. M. Esdale, Chief, Grain Division; *From the Department of Industry:* Messrs. Hume H. Wright, Industrial Policy Adviser; G. H. Dewhirst, Office of the Industrial Policy Adviser.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hees,	McLean (<i>Charlotte</i>),
Beaulieu,	Irvine,	Monteith,
Cameron (<i>Nanaimo-</i>	Laflamme,	More (<i>Regina City</i>),
<i>Cowichan-The Islands</i>),	Lambert,	Noël,
Cantin,	Latulippe,	Thompson,
Comtois,	Lind,	Tremblay (<i>Matapédia-</i>
Flemming,	Macdonald (<i>Rosedale</i>),	<i>Matane</i>),
Gilbert,	Mackasey,	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

Acting Assistant Clerks:

Fernand Despatie (*Printing*),

Michael A. Measures (*Documents*).

MINUTES OF PROCEEDINGS

WEDNESDAY, January 17, 1968.

(16)

The Standing Committee on Finance, Trade and Economic Affairs met at 10:40 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cantin, Clermont, Comtois, Gilbert, Gray, Hees, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*), Thompson, Wahn—(14).

Also present: Mr. Saltsman.

In attendance: Messrs. J. McKennirey, Director; J.-P. Reny, J. H. O'Connell and J. C. Stavert, Machinery Branch, Department of Industry.

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff resolution, and continued questioning of the officials concerning the machinery programme. Mr. McKennirey and Mr. O'Connell answered questions.

The questioning being completed, the Chairman thanked the witnesses, who then withdrew.

Mr. Irvine moved, seconded by Mr. Wahn, that Canadian General Electric Limited and the Canadian Electrical Manufacturers' Association be invited to submit briefs. After discussion, the mover and seconder agreed to amend the proposed motion by adding "provided the briefs are in the Clerk's hands by 6:00 p.m., Friday, January 26, 1968."

After further discussion the motion, as amended, was carried.

At 12:50 p.m., the Committee adjourned until 2:30 p.m., this day.

AFTERNOON SITTING

(17)

The Committee resumed at 2:40 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cantin, Clermont, Comtois, Gilbert, Gray, Hees, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Mackasey, Monteith, More (*Regina City*), Wahn—(14).

Also present: Messrs. Patterson and Saltsman.

In attendance: The Hon. Robert H. Winters, Minister of Trade and Commerce. *From the Department of Trade and Commerce:* Messrs. M. Schwarzmann, Assistant Deputy Minister (Trade Policy); T. M. Burns, Director, Sec. II, Office of Trade Relations; R. M. Esdale, Chief, Grain Division; A. R. Porter, Office of Trade Relations. *From the Department of Industry:* Messrs.

H. H. Wright, Industrial Policy Adviser and G. H. Dewhurst, Office of the Industrial Policy Adviser.

The Minister made a statement on the world trade situation following the Kennedy Round negotiations. Following the statement the Minister was questioned and was assisted in answering by Messrs. Schwarzmann, Esdale and Burns.

The questioning being concluded the Chairman, on behalf of the Committee, thanked the Minister and his officials.

The officials from the Department of Industry, Messrs. Wright and Dewhurst, were called. Mr. Wright made a statement on the subject of the adjustment assistance programme and was questioned.

At 5:00 p.m. the Committee adjourned to 10:30 a.m., Thursday, January 18, 1968.

Dorothy F. Ballantine,
*Clerk of the Standing Committee
on Finance, Trade and Economic Affairs.*

EVIDENCE

(Recorded by Electronic Apparatus)

Wednesday, Jan. 17, 1968

• 1039

The Chairman: Gentlemen, I think we are in a position to begin our meeting. When we adjourned yesterday we were hearing from officials of the Department of Industry on the machinery program and I believe that Mr. Lambert had just about finished his questions and we were going to recognize Mr. Macdonald. Am I correct, Mr. Lambert? Have you completed your questions?

Mr. Lambert: Yes, thank you.

Mr. Macdonald (Rosedale): I just wanted to return, Mr. McKennirey, to the questions and answers that we exchanged last night with regard to the existing made in Canada or not made in Canada rulings and machinery that is under that. As I understood your answer to me, equipment which had previously been imported under one of those rulings—replacement parts, for example—will come in with no complication under the new provisions. In other words, the old ruling still stands for that equipment brought in before January 1, 1968, in so far as replacement parts are concerned.

Now, the question I put to you is what about the situation of an importer who has got these rulings before? Does he have to start back at square one with all of them again and get new availability ruling?

• 1040

Mr. J. C. Stavert (Assistant Deputy Director, Machinery Branch, Department of Industry): The answer is, he has to begin again. The findings of the Advisory Board will be made only in respect of the machines that are covered by an application for remission. They will not constitute rulings in the sense that we always knew them from the Department of National Revenue. The Board will say that particular machines are not available as of the time that the application for remission was received. It is conceivable that at some period in the future they would be deemed to

be available so they would not be rulings in the sense that we have come to know them as National Revenue practice.

Mr. Macdonald (Rosedale): Notwithstanding the changes in the law the importation of machinery goes on and people naturally want to pay the lowest level of duty that they can. You are going to have an enormous number of applications for remission treatment. You probably have had them in the last 16 days.

Mr. Stavert: That is correct.

Mr. Macdonald (Rosedale): After 16 days how is it going?

Mr. Stavert: Very well, Mr. Macdonald. Mr. Chairman, you mentioned to me last night informally that it might be useful to take the Committee members through the administrative detail of the program without going on for too long.

The Chairman: Yes, I think it would be useful. It fits in at this point with Mr. Macdonald's questions. I might say that I asked the officials to provide us with the information circular which is distributed to importers of machinery from which they get their basic information for making use of the program. I believe members have copies in English and French.

Mr. Macdonald, if it fits in with your questions at this point perhaps Mr. McKennirey might make use of this opportunity first to tell us just what the administrative procedure is and second—perhaps more closely related to your own questions—if he has the information to tell us something about the number of applications received per week so far and what has happened to them so that the Committee could determine what the trends are so far as the effectiveness of this program is concerned.

An hon. Member: A good idea.

Mr. J. J. McKennirey (Director, Machinery Branch, Department of Industry): Mr. Chairman, perhaps we could begin by going back

to the statistics in the actual numbers of importations that take place under tariff item 42700-1. We sampled importations under this tariff item for two representative months and learned that there were 20,000 import entries per month. Then we learned that 9,700 of these import entries were in respect of machinery that in the past had been ruled of a class or kind made in Canada.

• 1045

Now, we do not expect many applications for remission from importers of machinery which has been ruled of a class or kind made in Canada because one of the questions on the application for remission is related to the market. That is, we ask the applicant whether he has made any attempt to find a Canadian source. If you subtract the 9,700 entries from the 20,000 entries you have 10,300 entries in respect of machinery of a class or kind not made in Canada. Of this number 6,300 are for replacement parts for machines that are already in the country.

Now, in order to cope with the problem of dealing with applications for remission on 6,300 replacement parts entries per month, a blanket arrangement was devised which conforms to the practice that National Revenue has been following for many years in dealing with replacement parts.

This blanket arrangement simply provides that in the cases where replacement parts formerly entered the country in a "not made" category—that is, at 7½ per cent—National Revenue could allow them to enter free automatically and this is now taking place. So, the number of applications for machines in the "not made" category boils down to 4,000 per month.

Then we did an analysis of the values of this machinery that comes in and we learned that 670 of these machines were of a value of \$500 or less; that is, the entries. These machines were at a \$500 value or less level. So, by introducing the \$500 threshold we then would reduce the number of import entries that would be the subject of applications for remission to 3,300.

Mr. Lambert: Just one point here. I thought you told us yesterday that the threshold was \$500 of duty, not of value of the machine.

Mr. McKennirey: I am sorry. The \$500 is in respect of the value for duty covered by the application for remission. For example, if you

were to bring in five \$500 machines, one application would be \$2,500 and then you would only be deducting the \$500 from the \$2,500.

Then we also expected that because of the \$500 threshold a number of import entries which were just slightly above the \$500 threshold would also not become the subject of applications for remission because it would not be worth the applicant's time. That reduced, in our estimation, the number of import entries which would have to be dealt with by the Board to about 2,700 per month. This meant, on a working day basis, about 125 to 130 a day.

Now, we advised the machinery importers that it would be possible for them to reduce the administrative tasks involved in obtaining remission by making an application which would cover a series of import entries rather than one at a time. They have taken full advantage of this so far, so that whereas in the past we had something like 125 to 130 import entries a day to consider, the bunching that is now taking place as a result of this provision to deal with a number of import entries at a time has resulted, in our experience to date, in about 70 applications a day.

When the applications come in to the Department each day they are divided according to the type of machinery that is involved; that is according to the broad classes of machinery that are involved. Four small sections review these applications in the light of the information we now have in a data bank, as to the availability of machinery in Canada. They are able to produce a very succinct statement as to availability before the Board in a matter of a week. The Board has roughly 350 cases per week and the administrative staff of the Board advises it in a general way, of the cases that are clearly available or non-available. This covers the great bulk of the cases. The Board then can dispose quickly of those and move on to the cases where the discussion as to availability may become somewhat more involved.

• 1050

Once the Board has made its findings, it reports them to the Minister of Industry through the Deputy, as a matter of form. A procedure has been devised whereby the material is summarized on sheets which are kept up to date every day. This material goes forward then to Governor in Council for ultimate decision.

The processes work quite quickly. When an application for remission is made it is sent to a post office box in one of our ten regions across the country, the Department of National Revenue clears the box once or twice a day, indicates the tariff classification of the machinery covered by the application, and forwards it to the Department of Industry, so it does not conflict with the regional distribution of National Revenue activities.

The question as to the value of former "class or kind" rulings relates to this matter of replacement parts. When these 6,000 entries per month for replacement parts get to the border the importer identifies them as being for machines for which "class or kind" rulings had been made, and where rulings had not been made such as for machines which were formerly at a rate of 7½ per cent and obtained for the parts, would now automatically come in free.

Another advantage, administratively, in this arrangement is that the importer can, as I have already indicated, come to the Board months in advance of the actual delivery of the machines. As a matter of fact, he can come to the Board before he has even placed the machines on order. One of the reasons for this was to alert the machinery user to the possibilities of obtaining the machinery from Canadian sources, if there were any. So, he comes to the Board and is advised that in the event of non-availability, remission will be granted. He then obtains a notice of remission and presents this at the port of entry when the machine arrives. He can do this for a stock of machines that he plans to bring in over the years. But to do this he does not have to have previously purchased the machines.

The administrative procedures have been reviewed in a tentative way with the various machinery dealers' associations in Canada. As you know, a great deal of machinery and equipment—as a matter of fact, the bulk of it—is handled by dealers and I think it is a true statement that the dealers find the program quite attractive, not only from the standpoint of the fact that they will be able to sell their imports cheaper in Canada, but also because it is not an administratively cumbersome arrangement.

• 1055

Mr. Lambert: Could we go back a bit to the steps an importer takes. For instance, a contractor who has bid on and received a job

and then wants to bring in the machinery to do it. His first contact, I take it, is with the customs officials or does he first have to get a notice of remission or some sort of certificate from the Machinery Board that he must present to customs on entry? I am finding this a little cumbersome, if I may say so.

The Chairman: I think your point is well taken. I think, perhaps, Mr. McKennirey could clarify this. If I am not mistaken, the dealer has a choice. He can import the machines, pay duty and later apply for remission once he gets the certificate, or he can get the procedure cleared away and get his remission certificate before he imports them. If he does the latter, he hands it to the customs officials at the border and the machine goes through.

Mr. McKennirey: That is right.

The Chairman: Am I right in interpreting it in that way?

Mr. McKennirey: That is right, Mr. Chairman.

Mr. Clermont: Which is preferable for your Department, before or after?

Mr. McKennirey: It would be preferable if he applied before, because if there were a possible Canadian source for the machinery he intended to buy, he could be advised of it, and might redirect his purchase, which would be in the interest of Canadian industry. Also, of course, it relieves the pressure of time because once he has imported it and paid his duty, his money is tied up. He then comes to the Department and is anxious to see that the remission procedure moves very quickly.

Mr. Wahn: Mr. Chairman, may I ask a related question on this subject?

The Advisory Board, as I understand it, includes the Deputy Ministers of the three or four interested departments. Since January, how often have they been meeting to consider these applications and how often do they meet during the week?

Mr. McKennirey: They have met once and it is their present plan to meet at least once a week.

Mr. Wahn: With say 350 applications to consider at each meeting, they could not go into each one in detail. They would have to be guided by the information received from the officials in the departments and the data bank, I presume.

Mr. McKennirey: That is true. They would have to be guided by the findings of the officials. The Board has a permanent secretary whose job it is to review the findings of the individual technical officers as to availability and non-availability. I think it should be emphasized that in the great majority of cases it is very clear cut as to availability or non-availability.

Last September the Department sent out a survey questionnaire to the entire machinery industry asking them to describe in detail what they made and what their capabilities were. All this information was then brought in and microfilmed, and where the information is adequate, fast communication is made with the various machinery manufacturers to determine whether or not the availability exists. It is clear cut in a great number of cases.

The Chairman: Perhaps we should return to Mr. Macdonald; he has been very courteous through all of this.

Mr. Macdonald (Rosedale): In answer to Mr. Lambert's specific question, prior to an actual entry of a machine, should the importer address himself to the Department of Industry or to the Department of National Revenue?

Mr. McKennirey: To the Department of Industry.

Mr. Macdonald (Rosedale): Is it an absolute proposition that anything that was the subject of a "made in Canada" ruling, by definition, will be available in Canada?

Mr. McKennirey: Oh, no.

Mr. Macdonald (Rosedale): The "made in Canada" ruling does not necessarily make it available?

Mr. McKennirey: No, that is true. It is a totally different set of criteria altogether. The "made in Canada" ruling was based purely on the 10 per cent test.

Mr. Macdonald (Rosedale): When you refer to a series of import entries are you, in fact, referring to the situation where the customs broker, or the importer himself, will say: "I expect over the course of this year to import 'X' number of these machines and I am making an application now for the foreseeable future", whether in fact the entries are ultimately made.

• 1100

Mr. McKennirey: That is true, yes.

Mr. Macdonald (Rosedale): To deal with the motivation for taking this out of the legal system, or out of the law courts, am I correct in stating that the reason is that the criteria involved, in arriving at judgments on availability, for example, are not really susceptible to legal reasoning? In other words, they are questions of engineering and of economics, and the legal process cannot really effectively deal with these?

Mr. McKennirey: Mr. Chairman, I would not want to disparage what the legal process can do or what can be achieved by it. Certainly, in determining this matter of availability, you have a set of factors that have to be taken together and weighed and a practical judgment arrived at. I am not too sure how well you can introduce that factor of judgment into a strictly legalistic analysis of the problem.

Mr. Macdonald (Rosedale): I would just like to make it clear that I agree. I do not think that this is susceptible of legal consideration; and the criterion of public interest is one that is ultimately decided by people who can be held politically responsible for it.

Mr. Lambert: This item is an exception to the whole of the Customs Tariff which is subject, of course, to the Customs Tariff Act and to the rulings of the Tariff Board and to appeals to the Exchequer Court. This is an exception to that.

Mr. McKennirey: No, sir. The tariff item, as does any other tariff item, establishes statutory rates for imports, and it is always possible for the Governor-in-Council to remit any duty under section 22 of the Financial Administration Act with respect to any one of those customs tariff items.

As I understand the thinking of ministers, it was felt, because of the scope of the machinery program, that the provision for remitting duty which could be invoked under section 22 of the Financial Administration Act should be made specifically in the tariff item itself.

Mr. Lambert: I am sorry, but I think you misinterpreted the purpose of my question and observation, which followed upon Mr. Macdonald's contention or observation that this was getting away from, shall we say, the

legalistic interpretation of availability and, obviously, of class or kind. Every other item in the Customs Tariff is subject to the legal determination of whether it is of a class or kind made in Canada. All the other items are under the Tariff Board and not under the Machinery Advisory Board; and, in fact, the first step in deciding whether machinery should come under 42700-1 may be for determination by the Tariff Board, which is a legal interpretation.

Mr. Macdonald (Rosedale): The definition of a frontier is still subject to the Tariff Board...

Mr. Lambert: Therefore, I would say that this is an exception. What you are setting up is an exception to the whole of the determination under the Customs Tariff Act, which is a legalistic one.

The Chairman: I think it is correct to say, Mr. Lambert, that much of this is a special procedure to deal with a special situation in our productive capacity generally.

Mr. McKennirey: Mr. Chairman, technically I am not too convinced of this...

The Chairman: Perhaps I might interrupt to add that what you appear to be driving at is that it is technically possible under the existing law, as provided by the Financial Administration Act, to do this for any tariff item; but as a matter of policy, so far, this has been done only with respect to machinery.

• 1105

Mr. Lambert: Mr. Chairman, you have got the wrong end of the stick. It has always been possible to remit under any item. I am not going into the question of remission; I am talking about the question of the determination of class or kind. Under item 42700-1 this is a matter for the Board, and it is stated that it will not be the legalistic approach that had prevailed under the Tariff Board. However, the whole of the rest of the Customs Tariff is still under the Tariff Board, and that procedure will continue. Therefore, what you are doing, in essence, is setting up an exception of procedure under the Customs Tariff.

Mr. McKennirey: Mr. Chairman, I think this can be cleared up—I hope. First, the Tariff Board is still the judicial body that will determine what falls into any tariff item. In the past, in machinery, you had a tariff item

for “not made” and a tariff item for “made”. Consequently, the Tariff Board made that decision. In the proposed 42700-1 you do not have a tariff item for “made” and another for “not made”. You have only a common tariff rate; you have only one item.

The Board, which is advising the Minister here, does not make any rulings on what is “made” or “not made” which obtain indefinitely, nor does it make any determination about what tariff item a particular machine falls under. It merely advises the Minister that the machine in question, which is subject to a statutory rate of 15 per cent, is a machine that is not available from production in Canada and that, therefore, in its opinion, it would be in the public interest to allow remission of duty. The statutory rates are clear. There is no question of determining what tariff item the machine falls under.

Strictly speaking, the only novel feature in this proposal is that instead of providing for remission under section 22 of the Financial Administration Act Parliament is being asked to provide for that remission in this particular tariff item, because, as I say, Ministers felt that the breadth of the program justified that kind of treatment.

Mr. Macdonald (Rosedale): The answer to Mr. Lambert's question is yes, though. He approached this from the standpoint of the appeal procedure, and this is now an exception to the appeal procedure. You have been answering in terms of approaching it from the point of view of remission, and, of course, it is not an exception; remission is available in all circumstances. But from the standpoint of appeal procedure this is an exception to the general principle.

Mr. McKennirey: The appeal procedure that we are talking about refers to...

Mr. Macdonald (Rosedale): I am talking about the legal appeal procedure ultimately and throughout, into the court system.

Mr. McKennirey: The appeal procedure applies to whether or not an imported machine falls under particular tariff items. In this situation the appeal procedure on whether or not it falls under 42700-1 would still obtain.

The same statement could be made about any tariff item that does not have a twin “not made” item. For example, in the case of electrical apparatus, which does not have a “not made” item, the Minister could be asked to

remit duty on a particular good coming in under that item, and could do so under section 22.

The Chairman: Perhaps I should interject here. Even though this is written under a tariff item it appears from the wording of the tariff item that some of the subsections of section 22 of the Financial Administration Act continue to apply. I am not saying this to create any controversy, but just to make clear that the powers given to the Governor-in-Council by section 22 of the Act continue to apply, at least in part.

• 1110

Mr. McKennirey: Mr. Lambert, I would like to make the point again that in any item where there is not a twin "not made" item, the statutory rate applies and remission could take place under section 22. In this particular case a province is being asked to make a specific provision for remission but you have not any exceptions in the tariff item; in the tariff schedule.

Mr. Lambert: No, no Mr. McKennirey I think you have misunderstood entirely what I have been trying to get at. I say the principle or the practice of appeal under 42700-1 is different than the principle and procedure of appeal under all of the other items under the Customs Tariff Act.

The Chairman: I think Mr. McKennirey would agree with you.

Mr. Lambert: Well that is fine. That is the only point that I was trying to make very clear.

The Chairman: The next name on my list is Mr. Wahn.

Mr. Wahn: I have no further questions.

The Chairman: Well then I recognize Mr. Clermont.

[Translation]

Mr. Clermont: Mr. Chairman, my first question may have been asked in my absence. Have the Advisory Board and the Revision Board been in office since January 1, 1968?

Mr. McKennirey: Yes, sir.

Mr. Clermont: Who is Chairman of the Advisory Board?

[English]

Mr. McKennirey: The Chairman has yet to be appointed sir.

[Translation]

Mr. Clermont: Then he is partly in office because the other four members are civil servants.

[English]

Mr. McKennirey: That is right.

[Translation]

Mr. Clermont: How about the members of the review board. Are they in office and who are they?

[English]

Mr. McKennirey: The intention is that the review board would not be appointed at the outset. The expectation is there will be very few appeals and therefore, I believe the Ministers are planning to appoint a review board on an ad hoc basis to deal with appeals as and when they arise, pending some experience with this.

There was the idea of appointing a standing review board which did not appear to have much merit inasmuch as we did not expect many appeals to occur. There may also be a problem of conflict of interest. One could appoint these outside members, who would be engaged in industry, and it might be that the particular subject under appeal was of personal concern to them.

Mr. Macdonald (Rosedale): So the four deputy ministers have been sitting but there has been a vacancy for the chairman.

Mr. McKennirey: They have been appointing an acting chairman among themselves.

[Translation]

Mr. Clermont: If the Revision Board is not formed as soon as possible, might there not be cases where the appeal would be delayed? You have mentioned in one of your remarks that it would be preferable for the application to be made before the importation of the machinery or equipment to save the manufacturer from tying down some of his capital for too long a period.

[English]

Mr. McKennirey: Mr. Chairman, the applicant for remission who was unsuccessful would I believe, in the first instance, go back to the Machinery and Equipment Advisory

Board that had made the negative finding and discuss in detail the basis for their finding. Again, the practical aspects of the case would be reviewed with them in great detail and the applicant would be fully apprised as to why the Board felt that the machinery in question was available in Canada. Following that type of interchange if the applicant still felt that an independent outside body would conclude differently, he would then ask the Minister and I think the Minister could fairly quickly find three people to serve in a review capacity on a one-case or two-case basis. We would hope that anyway.

• 1115

Mr. Clermont: I hope your hope is correct.

[Translation]

I would like to ask Mr. Chairman. In the opinion of our witness is the protection given under the Kennedy Round sufficient to protect the Canadian machinery and equipment industry? I think that the Canadian machinery and equipment manufacturers now control at least 50 per cent of the Canadian market. Therefore, I wonder if the present tariff gives our Canadian industry sufficient protection, compared, let us say, to other industrial countries such as the United States, Great Britain and Japan. What are the tariffs for those countries? Or what will they be by 1972 when tariffs have been increased by successive stages?

[English]

Mr. McKennirey: Mr. Chairman, I refer to the Minister's statement of December 12 in answer to this question; the proposed rate of 15 per cent MFN provides a reasonable measure of protection. The Department of Industry does believe that it is a level of protection which will enable the machinery industry in this country to progress. The level of protection is very substantial when compared with that that applies in other industrialized countries and as the Minister pointed out when the United States reductions are fully implemented, their corresponding rates of machinery will range from 5 to 8 per cent and other corresponding rates are U.K. 7½ per cent, E.E.C. 5 to 8 per cent and Japan 7½ per cent.

[Translation]

Mr. Clermont: What do you mean when you say that Canada is forced to become involved—that the tariff should not be lower

than 9 per cent. What do you mean by: lower than 9 per cent. I read in the first paragraph on page 7 of the Minister's Report to the House of Commons:

As a consequence, Canada gave an undertaking that the average annual incidence of M.F.N. duty under 42700-1 would not exceed 9%.

What do you mean by that?

[English]

Mr. McKennirey: It means that when you calculate the burden of duty on total importation, having regard to the amount of duty that has been remitted in cases where machines are not available in Canada, you will arrive at a figure that in practice will probably be lower than 9 per cent. But we undertook to the United States that the figure would be at least 9 per cent. It is an average figure.

Mr. Clermont: Average.

Mr. McKennirey: An average figure.

[Translation]

Mr. Clermont: I note that a Canadian importer can make an application for remission in the case of used machinery as well as spare parts.

Mr. McKennirey: Yes, sir.

Mr. Clermont: Why is it that item 42700-1, which includes certain household appliances, also includes machinery and equipment?

[English]

Mr. McKennirey: You are referring sir to the parts, attachments...

• 1120

Mr. Clermont: No, not parts.

[Translation]

I understand that this is mainly for secondary industries such as manufacturing and services: they will be entitled to a remission on tariff duties, and certain appliances would therefore be destined for the household for household. Why include such items under 42700-1?

[English]

Mr. McKennirey: Mr. Chairman, the reason for the inclusion of the machines that you are talking about is basically that 42700-1 deals with machines not otherwise provided as I indicated in the tariff explanation yesterday. It is inevitable that a certain odd collection of

items eventually will be grouped under a basket provision such as Machines, n.o.p. The only alternative to that would be to establish an extremely extensive series of tariff items for each and every type of machine that was involved.

You will recall that I mentioned yesterday that the machines being imported under the Machines, n.o.p. category were distributed over 356 devious import classes and that very substantial importation took place in at least 112 of those import classes. So, if you wanted to be specific theoretically you would end up with, say, 112 tariff items.

Then you will find that there is a great range of machines. They range from machines worth \$10 to machines worth \$2 million or \$3 million in the same basket item. Now, I might also point out that in the case of consumer appliances which you mentioned, the Tariff Board determines what is or is not a machine. These definitions then guide the Department of National Revenue in determining tariff treatment for goods coming into the country. Under Tariff Board guidance certain household appliances with mechanical features came in under 42701-1 and 42720-1 for many years.

[Translation]

Mr. Clermont: Thank you, Mr. Chairman.

[English]

Mr. Macdonald (Rosedale): Could I just ask a question in connection with one of Mr. Clermont's questions? Concerning the reference to the 9 per cent undertaking in the United States, you do not foresee any difficulty on the basis of recent past experience? A much smaller percentage of these imports are actually dutiable. What happens if, in fact, there is a change and you get halfway through some future year and you find that you are over the 9 per cent? Is everything after that automatically duty free, or how do you handle that problem?

Mr. McKennirey: It is a very hypothetical problem. As a matter of fact, it appears to be completely beyond the range of possibility. The distribution of imports for the past two years has been 65 per cent "not made" and 36 per cent "made". In a statistical analysis, using the only approaches available for the years previous to that, we arrived at a statistical breakdown of 60 per cent "not made" and 40 per cent "made".

• 1125

The United States, in doing their analysis, arrived at a breakdown of 65 per cent "not made" and 35 per cent "made". Now, if you assume that by and large where the item in the past was determined "not made", that it would be non-available in future, you would get an average increase of somewhere between 6 and 7 per cent. To go above 9 per cent, it means that over 60 per cent of the machinery imports into Canada would have to be regarded as available in Canada and subject to the 15 per cent rate.

Now, the reason why people do import machinery is because usually it is not available. That is one of the most obvious reasons. Therefore, there does not seem to be any possibility whatever of a situation where over 60 per cent of machinery imports would be of a kind that is available from Canadian production.

Mr. Macdonald (Rosedale): Thank you.

The Chairman: Mr. Lind, and then I will recognize Mr. Saltsman, who is sitting in with us today. Mr. Lind?

Mr. Lind: On this question of parts for machinery, I see at the bottom of the second page of this folder that you allow used equipment to come in and everything applies that applies to new machinery. Now, if the machine is five years old when it enters who places the value on the machine?

Mr. McKennirey: The Department of National Revenue.

Mr. Lind: Parts are allowed to come in for two years because it says "will be considered on the same basis as for new machinery." Why do you limit parts entries free of duty to two years? It is after the machines have been in use for three or four years that you really need parts.

Mr. McKennirey: Mr. Chairman, I think there has been some misunderstanding about what the information bulletin says there. If a used machine were to be imported after January 1, 1968, and notice of remission was granted in respect of that machine, the notice of remission would also cover the replacement parts for that machine for a period of three years.

Mr. Lind: For a period of three years?

Mr. McKennirey: Yes, sir. The reason for the period of three years is that it was felt that rather than make definite commitment with respect to the availability of parts from Canadian production, the advisable course would be to limit the extent of remission for a workable period of, say, three years, and then review the issue again if the particular machinery user still sought more remission.

Mr. Monteith: It might be renewable?

Mr. McKennirey: Yes sir; there would be no reason why it would not be if the items are not available.

Mr. Lind: The parts could be brought in duty free?

Mr. McKennirey: Yes sir.

Mr. Lind: Why do you state at the end of (b) that these parts will be allowed to enter duty free for a period of two years commencing January 1, 1968?

Mr. McKennirey: We are talking there, sir, about machines that were imported into Canada prior to January 1, 1968, in the "not made" category. For machines that are imported after January 1, 1968, at the time remission is granted the remission notice will cover any subsequent replacement parts.

Mr. Lind: But your Review Board would review it and, if they thought it legitimate, would grant them free entry if they were not made in Canada later.

Mr. McKennirey: That is right. They would get remission for three years for replacement parts at the time they brought in the machine, and at the end of three years they can seek remission and get it for whatever period the Board determines after that.

Mr. Lind: They would review the case even if it has been imported before January 1, 1968?

Mr. McKennirey: Oh, yes.

Mr. Lind: Thank you, Mr. Chairman.

The Chairman: Before I recognize Mr. Saltzman perhaps I should adhere to our usual practice and ask whether all members of the Committee have had their initial turn. If so, I will recognize Mr. Saltzman.

Mr. Saltzman: Thank you. Do you anticipate any difficulty with inter-plant transfers between parent plants and branch plants in

Canada so far as machinery exchanges are concerned? For instance, a rental arrangement; a sort of invoicing that would look like a purchase arrangement. Are you anticipating any difficulties with this kind of transfer?

Mr. McKennirey: Mr. Chairman this is a technical question. Possibly Mr. O'Connell would be the one to answer.

The Chairman: Yes, you can refer questions to your colleague who specializes in the area.

• 1130

Mr. J. H. O'Connell (Chief Programs Division, Machinery Branch, Department of Industry): Are you directing this question to branch plants?

Mr. Saltzman: Yes, branch plants of the United States parent, for instance.

Mr. O'Connell: Where it would involve used machinery?

Mr. Saltzman: Where it involves used machinery.

Mr. O'Connell: Well, this machinery would be subject to determination by the Department of National Revenue as to its tariff classification and subject to appraisal for evaluation purposes. If it were under Item 42700-1 then the importer would be entitled to make application for remission.

Mr. Saltzman: For argument's sake, suppose the branch was renting it on an inter-plant agreement rather than on a purchase basis? The branch was not actually purchasing; there was no purchase agreement; there was simply a rental agreement for a period of five years. These difficulties now exist in Canada. Can you tell me what is a lease and what is a purchase?

Mr. O'Connell: They would still be entitled to make application for the remission of duty involved on the item, whether it was purchased on consignment or leased.

Mr. Saltzman: I see. The same rules will apply.

The Chairman: I think Mr. Saltzman is driving at this. If there is any question as to the importer's obligation to pay duty, depending on whether the machinery enters the country on the basis of a lease or an outright purchase, it still must clear customs and there must be determination as to whether or not it is subject to duty. If it is, then the importer

has a right to apply for remission. The fact that it is leased—allegedly or nominally leased—by the importer, rather than purchased, does not put the importer in a more favourable position than he would be if he actually purchased it?

Mr. O'Connell: No.

Mr. Saltsman: I have just one question on used machinery and replacement parts. In some machines, the parts are the most valuable or the most costly part of that type of machinery. Do you anticipate that some used machinery could be brought in that was pretty well worn out and then under the three-year provision have the entire machine rebuilt with duty-free parts? If a frame comes in could the mechanical portions of it which might be pretty well worn out at that time be completely rebuilt with duty-free parts?

Mr. O'Connell: If these parts were not available in Canada, I assume that the importer could do just this, but you still are protecting machinery manufacture if it is available in Canada, both in regard to the parts and machinery.

Mr. Lambert: I would like to ask Mr. McKennirey about representations to the Machinery and Equipment Advisory Board. We know a Canadian manufacturer has the right to make representations to the Board or to make an application for remission or opposition to remission, too. We have heard a brief outline of the procedures of the Board at the present time and you have indicated the number of cases they might be dealing with in anticipation that it will be expeditious and so forth. But what about these contested matters and the scheduling of hearings which can be very difficult as I think anyone who has had any contact with the Tariff Board or the Department of National Revenue will realize? How do you envisage the handling of such representations and what rights do people have to appear before you? What rights have interveners to come before you?

• 1135

Mr. McKennirey: First of all, the Board's staff would be prepared to talk to agents of the importer as well as the importer himself. The applicant for remission would file his application and if he received a remission, of course, there would be no problem. If he did

not, he would then, I presume, either telephone or write to the Board and explain that he did not feel his case was fully understood. At that point he could come in and talk to the officials who would explain the basis of the findings of the Board. After that, if he feels that the officials have not taken all factors into account, he could go to the Board itself and talk to them. They intend to proceed on a pragmatic, informal basis and not to have official hearings, as it were. However, he would have access to them and there are no limits contemplated in that respect.

Mr. Lambert: Let us face it, at the moment I think you are groping in the dark with regard to the procedure at this level. You have not hit on it. But I can certainly envisage an intervener seeking permission and presumably he will have the right to intervene, to question or to make representations. There will be questions and cross-examination because notwithstanding the fact that you may want to maintain this on an informal basis, I think you are going to head into this.

Mr. McKennirey: Yes, sir. The experience of the past month has been good in this respect. The program was announced on December 12, but the machinery industry and machinery importers were aware of it even before that because of last July's announcement and they have been visiting and discussing cases with the officials. To date, no difficulty has arisen that could not be solved.

The Chairman: I think Mr. Lambert has entered a very important area. How does a Canadian manufacturer find out if you people have or intend to grant a certificate permitting the remission of duties from machines he thinks he can supply in Canada? How and when does he find this out?

Mr. McKennirey: Mr. Chairman, the machinery builders associations have spoken to us in this respect and we advised them that if they wished they could receive notice of every remission that had been granted. It would be a very voluminous type of information or, alternately, we could work out with them a practical arrangement whereby they would come in on a regular basis and sit down with the machinery branch of the Department of Industry and review the areas in which remission has been granted. We would provide them with as much information as they wished in order to be sure that their protection had been maintained.

We have written to them on a number of occasions and advised them to be sure to keep us advised as to the products they supply. There may be instances, although we are optimistic in this regard, when they just fail to advise us that they are in a position to supply. Later they might then find, with respect to one or a few machines, that remission had been granted because they failed to keep the Advisory Board informed as to what they could supply. But this, of course, is a situation that exists in the tariff, generally.

The Chairman: In other words, you, attempt to protect the Canadian manufacturers' interest through the supply of the information you maintain, on a continuing basis, as to what Canadian manufacturers produce?

Mr. McKennirey: That is right. We have also told the machinery builders that we will sit down with them and have thorough reviews of the areas in which remission has been granted so that they can be sure that their protection has not been eroded. In addition to that, it may be—we are hopeful, as a matter of fact—that they will see from the import patterns the areas of opportunity for manufacturing for themselves.

The Chairman: How does this contrast or compare with the present procedure for application for a "class or kind" ruling? Perhaps you could tell us about that.

Mr. McKennirey: At present, unless the machinery builder seeks a "made in Canada" classification, the machines being imported under the old arrangement were considered of a class or kind not made in Canada.

• 1140

The Chairman: Before January 1, 1968, if somebody wanted a class or kind ruling—perhaps we should just put this on the record—am I correct in saying that most of the procedure was an administrative one within the Department of National Revenue?

Mr. McKennirey: That is correct. They went to the Department of National Revenue and said: we ask that a ruling be made that the machines we supply are of a class or kind made in Canada. National Revenue would then proceed to determine whether or not 10 per cent of consumption was being supplied. This would be an administrative procedure and it would relate, of course, to the distinctions the Tariff Board had made on what was the class or kind of machine.

The Chairman: So really what is in operation now is not drastically different with respect to whether it is an administrative or judicial procedure as far as the great bulk of the cases is concerned.

Mr. McKennirey: The difference in this respect is that as soon as a machine is available from production in Canada it enjoys the 15 per cent protective rate whereas in the previous arrangement the builder had to supply 10 per cent of Canadian consumption.

The Chairman: What I am driving at is this: before, under the old class or kind set-up, the whole procedure for making a class or kind ruling up to the time the ruling was made was an administrative one within the Department and not a judicial one providing a sort of adversary proceeding and notice to all concerned. In this respect, the procedure you are using now is no different?

Mr. McKennirey: That is correct.

Mr. Lambert: But then in the next step there is a difference.

The Chairman: That is correct.

Mr. McKennirey: Mr. Chairman, if I might comment on this question which Mr. Lambert has brought up before. If importations were made under a tariff item such as 44524-1—electrical apparatus which I mentioned previously—and the importer claimed that the product was not made in Canada; he would have no recourse to the Tariff Board to appeal the "made" ruling.

An hon. Member: Why not?

Mr. McKennirey: Because there is no tariff item for a "not made" electrical apparatus and a "made" electrical apparatus. The Tariff Board is concerned with tariff classifications.

Mr. Lambert: One moment—but you see regularly in the *Canada Gazette* class or kind rulings of a variety of kinds and also of individuals—companies—that I have been aware of that had to go before the Tariff Board in order to get a class or kind ruling.

The Chairman: This is by way of appeal? Am I correct?

Mr. McKennirey: This is a situation where there are two tariff items; one for "not made" and one for "made".

Mr. Lambert: I will venture that in certain things if there were a general item which caught everything and there were no distinction between "made in Canada" and "not made in Canada" of course there would be no distinction because it would serve no useful purpose. But, certainly in the great number of cases there was this distinction.

Mr. More (Regina City): I just wanted to ask Mr. McKennirey this question. Once you grant remission, and, in the case of parts, for two or three years, you say nothing can interfere with that period? Is that correct?

Mr. McKennirey: No, sir.

Mr. More (Regina City): When the review comes if a Canadian manufacturer says he supplies, it is then taken into account; but the period granted remains.

Mr. McKennirey: Yes, sir.

The Chairman: Will the Orders in Council establishing fight to remission be published in the *Canada Gazette*?

Mr. McKennirey: Are you referring to the weekly Order in Council that would remit duty on...

The Chairman: All the applications that came in.

Mr. McKennirey: Yes, sir.

The Chairman: This will be published in the *Canada Gazette* and will be therefore available to the public.

• 1145

Mr. McKennirey: Yes, sir.

Mr. Chairman, I might qualify that. The Order in Council could be of a general nature, that is, indicating the amount of duty that was involved and the authority under which the remission was given and would not include all the detail about the individual applicants who obtained remission.

The Chairman: Could somebody go to the Department and get that information?

Mr. McKennirey: The answer is "Yes", except that commercial confidentiality would be observed here. For instance if an importer of a machine, who had yet to make a decision, came to the Board and asked for a notice of remission and at the same time did not want to disclose his business plans that confidence would be respected.

The Chairman: Could a Canadian machinery manufacturer ask for a review board if he somehow learned of the change?

Mr. McKennirey: Yes, sir.

The Chairman: If the review board were set up, say, a year after the original remission order and the review board ruled that the remission should not have been granted, what would happen?

Mr. McKennirey: The remission would stand. The reason is that if an importer is advised that the machine he is contemplating buying will not be subject to duty and then he proceeds on that assumption it would be inequitable to later advise him that he is now subject to duty.

The Chairman: Who protects the equities of the Canadian machinery producer who has been found to be successful in his review?

Mr. McKennirey: I think that the Canadian machinery producer will, first of all, keep the board fully apprised of its capability to supply the officials of the department who will be fairly familiar with that capability. In any case where it would be a subject of doubt, it would automatically follow that the Canadian machinery industry has the capability and the ruling would not go against them; the finding would not go against them.

The Chairman: It boils down to what I said before, that really there is a serious responsibility on the Department to have this information on a current basis. Do you have a procedure for regularly circularizing individual manufacturers with respect to their capabilities?

Mr. McKennirey: Yes, sir. We advise the entire Canadian machinery equipment manufacturing industry of the program. We asked them specific questions on what their capabilities were; they have responded and this material is all in a—

The Chairman: I realize that but what about getting it updated?

Mr. McKennirey: We plan to continue circularizing them regularly to ensure that they do keep us informed.

Mr. Wahn: Mr. Chairman, this is in relation to a question I asked yesterday about publicity with regard to decisions of the Advisory Board and review board. I wonder if I could just refer Mr. McKennirey to that?

The Chairman: Yes.

Mr. Wahn: I asked you yesterday, Mr. McKennirey, whether the decisions of the Advisory Board and the review board would be made public and it is my understanding you indicated they would be made public. Would the only publicity be publication of this Order in Council which might be in general form or might not give details of the items involved. So actually then people in the industry might not have any clear idea of just what decisions have been made.

Mr. McKennirey: In the machinery industry?

Mr. Wahn: Well, or other competing importers for example. In other words, one importer might get a remission and another importer who was not quite as sharp might not know about it, or could that happen?

Mr. McKennirey: Well, when a decision is made to remit duty with respect to particular machines, that decision will be recorded in the data bank which we have on the machinery industry and if an application for remission were received the following week with respect to that machine—or type of machine—reference would be made to the earlier findings and also to whether or not any additional information had come before the board since that finding had been made. This procedure then will ensure that the machines will not be treated differently from week to week unless some Canadian machinery manufacturer has set up to produce that particular product.

• 1150

Mr. Wahn: There is no procedure whereby the public generally will have information about what remissions are made and what are not made, except that the general Order in Council, which I gather is published once a week, which will cover 350 items and which will merely provide that "x" number of dollars of duty will be remitted. That is the only publicity. In other words, it would then be quite possible for an importer, if he was not too sharp, to not get the same treatment as some other importer.

Mr. McKennirey: On this matter of publicity, let us take the two parties that are involved. First of all, there are the machinery manufacturers.

The machinery manufacturers have indicated to us through their association, that they

will be satisfied with periodic visits to the Department of Industry to review where all the remissions are taking place. They believe that they can satisfy themselves that their protection is not being eroded, but if each of them attempted to screen what is happening each week 350 remissions it would be an impractical task.

For example, if you were to publish the information in respect of each of the applications to describe the machine and to describe the characteristics that made it available or non-available, you would end up with a tremendous compendium and the machinery manufacturer would find it impractical to try to go through that on a week-by-week basis, and he recognizes this. The best thing that he could do is to go to the Machinery Branch of the Department of Industry, which is concerned with his protection and with his development, and they will be watching carefully and will analyze and be able to tell him exactly where remission is occurring. I think the machinery manufacturers would welcome that service rather than having the job of screening 350 applications a week themselves. I think the machinery manufacturers are satisfied and there should be no problem in dealing with them, and they have indicated that to be the case.

Dealing now with the other parties who are involved, the importers. In the first instance, as I pointed out, every time a decision is made with respect to a particular machine that decision will be recorded and the first question that would be asked when a subsequent application for remission comes in would be, "What did we do the last time?". We expect in very short order to have a great deal of information about what we did the last time. Unless we have received information from the machinery manufacturers that the supply situation is any different, we will do what we did the last time. The matter of determining availability or non-availability would not be related so much to the skill of the applicant seeking remission. The applicant seeking remission can ask the question, "Who is it that you think could supply this machinery in Canada?". If that question cannot be answered adequately he has good grounds for obtaining the remission he seeks. I think that is the point in question, and it does not take too much skill to ask it.

The Chairman: Can a person make this type of enquiry in writing or does he have to attend personally?

Mr. McKennirey: He could make it in writing. There will be the usual communication by telephone, and so on. I would imagine that the normal practice would be that the applicant would apply for remission and if it is a very large sum of money, and all the rest of it, he would probably add to his formal application or telephone conversation or possibly he might make a visit. In any case, he would be advised—if it was against him—"It looks as if there are no grounds for granting you remission. The machinery is available in Canada". He would then ask, "What machinery are you talking about that is available in Canada?"

• 1155

Mr. Wahn: Would it not be possible and helpful to simply publish, perhaps not any mention of amounts, but a list of items in respect of which remissions have been granted? For example, a rear end loader or a front end loader, or whatever it is.

Mr. McKennirey: We considered that and the problem, of course, is to make that kind of information useful. In this particular program you are not dealing with classes or kinds, you are dealing with individual machines, and consequently you end up by trying to qualify machine after machine after machine. In order to make that information useful you conceivably could end up with a page of data.

Mr. Wahn: Thank you, Mr. Chairman.

The Chairman: Any further questions?

Mr. More (Regina City): Mr. McKennirey, when you speak of importer, there is no restriction on the importer, he could be an individual purchaser of a machine. Is that right?

Mr. McKennirey: Yes, sir.

Mr. More (Regina City): There are now under certain customs items remissions only to licensed dealers, for instance, in regard to parts but this does not apply in this case?

Mr. McKennirey: No, sir.

The Chairman: Any further questions of Mr. McKennirey and his colleagues? If not, I might just ask a supplementary to what has already been asked. Can you tell us what differences have developed so far in the time factor required to process applications for remission under this new procedure and as required under the "class or kind" procedure?

Mr. McKennirey: Mr. Chairman, we have only had two weeks' experience with it so I would not want to be too positive about this, but we believe it would be reasonable to expect that the Board can be advised within one week of the time of application as to the availability or non-availability of the machine in Canada. The Board would then proceed to the Governor-in-Council and the total procedure could be achieved in three or four weeks. This would not be unreasonable.

In the case of people seeking a "made in Canada" ruling from the Department of National Revenue, I have no idea how long it takes but, as you mentioned earlier, he goes to the Department of National Revenue and says, "I would like a made in Canada ruling" and they proceed to implement the administrative procedure to satisfy the 10 per cent rule, and this takes quite a long time.

The Chairman: Do your colleagues have any general information on how long it used to take for a "class or kind" ruling?

Mr. O'Connell: It would depend on the statistical evidence that is available. It is 10 per cent of the normal consumption and therefore you have to have knowledge of Canadian imports, and sometimes this would involve quite a statistical analysis.

The Chairman: From your study of the matter could you say whether or not it used to take longer, shorter or about the same time as the new procedure?

Mr. McKennirey: It takes much longer under the older procedure. It would depend. You have to establish what the statistics are for Canadian consumption of the item, and that involves any statistics for imports of the item, which are sometimes difficult to obtain, how much is purchased in Canada and who is supplying it, and then establish whether or not 10 per cent is being supplied by Canadian manufacturers. This runs into months on many occasions but in other cases it might be a matter of weeks. It would depend upon the information available.

Mr. More (Regina City): Is this the basis of most appeals against the ruling that it had 10 per cent of the market?

Mr. McKennirey: No, sir. The basis of the appeals are as to whether or not the item falls into the "class or kind" that has been determined to be made in Canada. For example, there are certain types of power shovels

that may be determined and is this a power shovel of that class.

The Chairman: Mr. Lambert and then Mr. Irvine.

Mr. Lambert: I have two questions. First of all, what is the degree of liaison that you have with the Department of National Revenue?

Mr. McKennirey: Very close. No. 1 is that one of the Board members is the Deputy Minister of National Revenue. No. 2 is that all the applications for remission go through the Department of National Revenue en route to the Department of Industry in order to clarify the tariff classification. In addition to that, we work with them very closely in working out detailed administrative arrangements for the program.

Mr. Lambert: I mean at the official level, because the Department of National Revenue over the years have built up a very effective group of appraisers who are experts in particular lines—and I am talking about, say, the machinery lines—and they will continue to be there; because for machinery not covered by this particular item the machinery section will still have to be maintained in the Department of National Revenue.

• 1200

Mr. McKennirey: Mr. Chairman, there are a number of aspects to that question. First of all, as you know, National Revenue is decentralized, and the decisions in this work of the customs appraisers are being made regionally rather than centrally.

Secondly, although it is true that some people will still have to work on the tariff classification of machinery imports, those who had to work on questions of class or kind under the 42700-1 series no longer have that work to do. It so happens that through Civil Service competitions four of those officers are now employed by the Department of Industry; and those who worked on "class or kind" distinctions in the 427 series do not have that work to do and are being assigned to other tasks.

Mr. Lambert: I see. My next question may be one that should be reserved for your Minister. I would like to know what degree of identity there is between what may be the Board's conception of public interest and that of the Governor-in-Council?

Mr. McKennirey: Mr. Chairman, the Board is an advisory board, and it advises the Minister. The Minister, in turn, advises the Governor-in-Council. Therefore, the Board does not make any final determination on what "public interest" is. It merely brings forth the information that it has developed and the views that it has arrived at, and then it leaves it to the Minister and the Governor-in-Council.

Mr. Lambert: With the greatest of respect, I put it to you that in arriving at a recommendation for remission, as you indicated yesterday, the Board must consider availability, and, secondly, public interest; and to arrive at a recommendation it must make an assessment of public interest, otherwise its recommendation is unsupportable.

Mr. McKennirey: Yes sir. The Minister stated in his speech in the House that in the typical case the unavailability of machinery in Canada would result in a decision to remit duty, because it would be seen to be in the public interest to allow Canadian machinery users to get their capital equipment at the lowest possible cost.

Mr. Lambert: I think I will defer my next question for the Minister, because I rather feel that what may be their conception of "public interest" may be somewhat different from that of the Board.

The Chairman: Mr. Irvine?

Mr. Irvine: I have on the classification of machinery under this tariff item. Does it go so far as to include what would normally be called traffic equipment, on traffic appliances, and things such as polishers, vacuum cleaners, home power tools and this sort of thing?

Mr. McKennirey: Some of those would be included. If the item falls within the Tariff Board definition of a machine and is not provided for elsewhere in the tariff it will fall under 42700-1.

Mr. Irvine: Have any representations been made by Canadian General Electric to any of the bodies that report to you or that you are interested in?

Mr. McKennirey: That company has written to the Minister on the question of the inclusion of appliances in 42700-1.

Mr. Irvine: Were they in favour of it, or did they take exception to it?

Mr. McKennirey: That manufacturers of electrical appliances in Canada now regret that the electrical appliances which are deemed to be machines fall under 42700-1, because the rates of duty established for other kinds of electrical appliances in the Kennedy Round are somewhat higher than are those for 42700-1.

• 1205

Mr. Irvine: Was any representation made by Siemens Canada Ltd?

Mr. McKennirey: I cannot recall any formal representation made to our minister by Siemens but Siemens has been discussing the matter of appliances falling into 42700-1 with both the Department of Industry and the Department of National Revenue for some months now.

Mr. Irvine: To your knowledge, or memory, then, no submission was made by either or both the association and firm?

Mr. McKennirey: Since the announcement of the Kennedy Round, or prior?

Mr. Irvine: Shall we say in the last six months?

Mr. McKennirey: I am not aware of any formal representation made by way of a brief, or of a formal meeting called for that purpose.

Mr. Irvine: It is my understanding, Mr. Chairman, that they would like to make representations to this committee. Would the Committee entertain submissions from either or both of these groups at this late date?

The Chairman: That is up to the Committee. The Committee agreed before Christmas that all briefs had to be submitted, at least in general form, by January 12, 1968. As of termination of that period, no briefs had been received from either the Canadian Electrical Manufacturers Association or General Electric. I see we have a brief from Electrohome Limited.

Obviously, if the Committee wishes to grant some relief from the rule they previously adopted it is within the Committee's power to do so. I suspect that if the Committee entertained such a motion it would insist that the written briefs be filed with the Committee prior to the appearance of these groups so that it would have time to study them.

The proper procedure would be for you to make a motion that they be permitted to file

briefs if they wish to do so, and it would be for the Committee to decide.

Mr. Irvine: I would like to make that motion Mr. Chairman, because I have been speaking two or three times this morning with some of the chief executives of General Electric and also with a number of the representatives of Siemens. I think, perhaps, in the national interest, it would be well if we heard from them.

I would like to make that a motion if somebody would see fit to second it.

Mr. Wahn: I second the motion.

The Chairman: Mr. Irvine, will you file the motion, in writing, with the Clerk later on? Would you agree with my suggestion that your motion include a requirement that the briefs be filed with us in writing in sufficient time for the members to review them prior to the appearance of these groups? Perhaps we could even set a date.

Mr. More (Regina City): Were they notified of the date of January 12?

The Chairman: Each individual manufacturers' association was not notified—we do not have the machinery for doing this—but a general release was issued which was very widely reproduced in the press, and particularly in the financial press. I myself saw rather prominent articles that mentioned the date in the business sections of the *Globe*, the *Gazette*, the *Toronto Star* and the *Telegram*, and I presume this was general across Canada. A number of major interest groups were also contacted informally to make sure they were aware of the date, although I cannot say we specifically contacted the associations in question. Certainly the closing date was made very widely known through the coverage of the press.

Mr. Irvine: On the basis that it may perhaps be a great impediment to such businesses, I think it is in the national interest that we hear them.

The Chairman: I am in the hands of the Committee. I certainly have no personal objections.

Mr. Lambert: Mr. Chairman, perhaps Mr. Irvine can tell us whether, in his discussions with them, he got any ideas as to how soon they could present their briefs?

• 1210

Mr. Irvine: Yes. The Vice-President of—I will not mention his name because there are several of them—General Electric told me this morning on the telephone that they could present a brief very quickly, and that would be next week when we are hearing these other witnesses, if it suits the Committee and the Committee gives them permission to attend.

The Chairman: You have now mentioned two groups, Siemens and General Electric.

Mr. Irvine: Yes. I have only spoken to one of the executives of Siemens and they are going to check the date further. However, I would like us to hear from Canadian General Electric. I have no pecuniary interest in that company, so it is just in the best interest of the country. If you want me to leave Siemens out of it for the moment, I will be pleased to do so.

The Chairman: I have asked for some further discussion by the Committee.

Mr. Clermont: I think, Mr. Chairman, it would be preferable to include both General Electric and Siemens and if Siemens cannot come up with a brief within a reasonable time they will be all by themselves.

Mr. Lambert: What do you consider to be a reasonable time, by the end of next week? I would think so.

Mr. Clermont: Yes. I agree with that.

Mr. Lambert: Under the circumstances.

The Chairman: Would you care to modify your motion to the effect that they be allowed to file briefs and appear provided that the briefs are in the hands of the Clerk by next Friday, January 26, at 6 o'clock or at 5 o'clock, whatever time the Clerk's branch closes for the day. Would you be willing to modify your motion if Mr. Wahn agrees?

An hon. Member: Agreed.

The Chairman: Is there any further discussion on the motion? The motion is that we grant relief to these two groups from the rule which we adopted earlier that briefs have to be filed by January 12 and that they be allowed to file briefs and appear, if they so desire, provided the briefs are in the hands of the Clerk by the close of business of the Committee Branch on Friday, January 26.

Some hon. Members: Agreed.

The Chairman: Mr. Irvine, perhaps you would take it upon yourself to inform these groups.

Mr. Irvine: Thank you, Mr. Chairman.

The Chairman: I believe I am correct that it would appear that we have no further questions to be directed toward Mr. McKenirey and his colleagues. Perhaps we will excuse him and thank them for their appearance before us. As we were going to adjourn at 12.30 anyway perhaps we should not attempt to hear from the gentlemen from the Department of Industry who are going to testify on the adjustment assistance program. We could not complete the examination of Mr. Wright and his colleagues on the adjustment assistance program in any event, and we are going to hear from Mr. Winters at 2:30, so if it meets with the approval of the Committee I suggest we adjourn until 2.30.

Mr. Irvine: Before you adjourn, Mr. Chairman, we discussed last night the possibility of cleaning this up by Thursday night and I would like to suggest to the Committee that as we are here for this purpose that we sit tonight and get a lot of the work done.

The Chairman: I have no objection but we have to make sure that the witnesses will be available tonight. I do not know how long our questioning of the Minister will take.

Mr. Irvine: Would you like to cogitate on that?

Mr. Lambert: There is one observation I would like to make. There is the question of the administration of the hearings. Miss Ballantine and her staff have been very good to produce the transcript of evidence for us the following morning. As a matter of fact, Miss Ballantine had to work long hours last night to get this transcript out and we have to consider this as well. I am not too sure that we would be any further ahead.

The Chairman: Mr. More and then Mr. Lambert.

Mr. More (Regina City): Our hours were established on a certain basis and I have made other arrangements. I came back for the hearing and I think it is rather late to change the hours of sitting now.

Mr. Clermont: In the same vein, Mr. Chairman, I also have made some arrangements

for tonight because I was under the impression when we had the meeting before Christmas that there would be no night sittings. One of the reasons for this was brought up by Mr. Lambert; it is a matter of the staff. I believe that Mr. More has some other engagement and I have as well. Referring again to the notice we got last week, it said that we will be sitting on Tuesday, Wednesday and Thursday. There was no mention of night sittings or of a meeting on Friday.

• 1215

The Chairman: I think Mr. Irvine's suggestion was made in a constructive vein. If it does not fit into the administrative arrangements or other arrangements, then obviously we cannot proceed. We can have some further discussion on our schedule shortly before we adjourn this afternoon. I now declare this meeting adjourned until 2.30 this afternoon.

AFTERNOON SITTING

January 17, 1968

• 1439

The Chairman: Gentlemen, I now call the meeting to order. Our meeting this afternoon is primarily for the purpose of hearing from the Hon. Robert Winters, Minister of Trade and Commerce. He is with us now, and I will call upon him to present his statement, following which, of course, we will have the usual exchange of questions.

Hon. Robert Winters (Minister of Trade and Commerce): Thank you, Mr. Chairman and gentlemen. I would like to express my pleasure at this opportunity to appear before you. I have read Mr. Sharp's statement, and I, therefore, will not repeat any more of the ground than is necessary to put forward the case I would like to make for the opportunities presented by the Kennedy Round to increase our trade in the years ahead.

Mr. Sharp yesterday outlined the government's basic objectives in the Kennedy Round negotiations, with particular reference to the Canadian tariff. I am convinced that the results achieved will be of far-reaching and lasting benefit to Canada's export trade and to the Canadian economy. It is essential now for all the major trading countries to ensure that the concessions granted are fully and effectively implemented in the months and the years ahead.

I know you will wish me to refer to the current situation in world trade as we move into the period of implementation of the Kennedy Round results. The first point to be emphasized is that temporary problems and difficulties however critical and important they may be, should not be allowed to interfere with the basic direction of policy and the gains achieved in the Kennedy Round.

The extensive program announced by the President of the United States to deal with the current balance of payments situation is of major significance not only to the United States, but also to Canada and other countries, since the strength and stability of the United States dollar is of fundamental importance to the trading world as a whole. In this connection, the United States government has referred to problems created for them by the European border tax system, and to the possibility that the United States might need to consider legislative measures of their own. Mr. Sharp has indicated, we are in close touch with the United States government in this regard. In the event that the United States might find it necessary to act in this field for balance of payments reasons, it is clearly understood on both sides that Canada would have to adopt offsetting measures designed to maintain Canada's competitive trade position both at home and abroad.

If the United States did decide to take such trade measures on balance of payments grounds—and I should stress that no such decision has been announced—it would be important that this should clearly be seen in perspective, in the context of the current payments situation, and not as representing any basic alteration in overall trade policy objectives and commitments. I know that the United States government views the problem in this light.

There is the separate matter of protectionist pressures which have become apparent in various countries and of which we shall doubtless be hearing a great deal throughout this year. The full and effective implementation of the Kennedy Round results requires that such pressures must be resisted, and in this connection I may say that we have received firm and formal assurances from the United States government that they will do all in their power to ensure against passage of protectionist measures in the United States.

In short, Mr. Chairman, this is a time for cool judgment, firm resolve and continued cooperation on the part of all major trading

countries, and we shall be doing our part to be helpful in keeping international trade flowing.

Now Mr. Chairman, I would like to comment briefly on the Kennedy Round as a whole. These negotiations were the sixth round of general trade negotiations held under the aegis of the General Agreement on Tariffs and Trade since its inception in 1947. It was also the largest trade negotiation ever held in terms of participants—in terms of world trade coverage and in terms of scope and depth of tariff reductions. Some \$45 billion worth of world trade has been affected and major participating countries are making tariff cuts on 70 per cent of their dutiable industrial imports, of which some two thirds will be by reductions of 50 per cent or more. Following upon the basic principle of the General Agreement, all trade and tariff concessions granted by any country to any other are automatically and unconditionally extended to all other participating countries.

• 1445

In addition to the tariff bargaining, for the first time a general GATT trade negotiation was extended to include non-tariff obstacles to freer world trade. Major achievements here were the conclusion of an international code on anti-dumping, and undertakings by the United States to seek elimination through the United States Congress of a particularly burdensome system of customs valuation on benzenoid chemicals—known as the American Selling Price System, or A.S.P.

The negotiations covered all classes of products, both industrial and agricultural, and dealt not only with tariffs but also with certain non-tariff barriers. It was agreed that, to the maximum extent possible and subject to over-all reciprocity, the negotiations would proceed on the basis of a 50 per cent linear or across-the-board cuts in tariffs. The linear approach was adopted by a number of industrial countries, including the United States, Britain, the EEC and Japan.

As indicated by Minister of Finance at the opening of these hearings, it was recognized from the outset that linear tariff cuts would not be appropriate in Canada's case because of this country's special trade and economic structure. Canada therefore participated on the basis of offering tariff concessions equivalent in terms of their effects on trade to the benefits it obtained from all the other participating countries.

For our highly competitive resource-based industries—metal and minerals, forestry and fisheries—the further reduction and removal of barriers will strengthen their base of operations and enhance their already-demonstrated ability to develop and expand their traditional trade.

However, the most important long-term benefits from the tariff agreements in the Kennedy Round are the linear reductions being made by principal industrialized countries in the manufactured goods sector. Fifty per cent reductions are being made over very wide ranges of goods in this category, with the final rates in many areas being 10 per cent or lower. While Canada is currently a relatively minor supplier of manufactured goods in world markets, our exports of such products have been rising rapidly and it is essential that we should further enlarge our share of this—the most rapidly growing sector of world trade. Their continued advance can importantly affect the strength of the whole Canadian economy.

In our major market, the United States, over \$2 billion worth of our current exports will enjoy significantly reduced tariffs. Maximum concessions obtainable were secured on virtually every product for which Canada was a major supplier to the United States. This includes 50 per cent cuts in most tariffs and complete removal of duties in such areas as fisheries and lumber where duties are already low. When the final reductions from the Kennedy Round are made over 60 per cent of our total current sales to the United States will be free of duty.

As a result of the overall reduction of world trade barriers many existing margins of preference between Canada and Britain will be reduced. This narrowing of preference in our historic markets in Britain will, however, be more than offset by the general expansion of trade and increased demand in the United Kingdom as in other countries. In addition, our present duty-free access to the United Kingdom on virtually all our exports is being retained.

Canada's exports to other major overseas markets, such as the European Economic Community, other Western European countries and Japan, have been concentrated traditionally in a relatively narrow range of commodities. Wheat is the main single item and many of our other exports are in the

primary commodity field and already duty-free. In the more highly processed and manufactured goods sector, however, our exports to overseas markets have been relatively small, having in mind the massive size and rapid rate of growth of those markets. We have obtained tariff cuts on many of our current exports, totalling some \$300 million, but the overall reduction of tariffs in Europe and Japan in the processed and manufactured goods sector creates important and new opportunities for our future export trade.

In the agricultural sector the most important gain was the negotiation of the basic elements of an International Grains Agreement, which were incorporated into such an arrangement negotiated in Rome later last year. As I informed the House on October 25th, when tabling the International Grains Agreement, it was the intention to place this arrangement before Parliament at the appropriate time for approval. The agreement is to enter into force on July 1, 1968 and it is to be ratified by signatory countries before that date. There are two major provisions of this agreement of particular value; the new price schedule and the food aid program.

• 1450

The new price schedule provides a price range with maximums and minimums about 21 cents per bushel higher than in the IWA 1966 agreement. Previous wheat agreements identified a minimum and maximum for only Manitoba No. 1. The schedule in this agreement identifies the price range for most major grades of wheat from all member exporting countries. This improvement places more equivalent responsibility on all exporting countries to cooperate fully in achieving the objectives of price stability and the observance of minimum and maximum prices.

We of course regret that there has been a gap between the termination of the operative provisions of the International Wheat Agreement of 1962 and the implementation of the new agreement. However, a further extension of the old Agreement—that is the price range of the old Agreement—was opposed by the producer organizations of Western Canada and it was not acceptable to the government. This position was taken by the major exporting countries in these negotiations. We also pressed for an earlier effective date for the new agreement but constitutional procedures of other countries and decisions which had to be taken, particularly among EEC member

states, made it impossible to obtain agreement for earlier implementation than July 1 of this year. The prices which have prevailed over recent months are slightly below the new minimums but have remained well above the minimums of the old IWA agreement of 1962.

The second major provision is the agreement among the principal exporting and importing countries to share in a 13½ million ton food aid program over a three-year period. This commitment, to assist in providing food for the developing countries of the world, is unprecedented. Canada's share of the total program amounts to approximately 1½ million tons.

In other areas of world agricultural trade the results fell short of our overall objectives but an important beginning has been made in grappling with the difficult issues raised in this field. In addition, some valuable new concessions were obtained, particularly in the United States, which will benefit the two-way flow of many agricultural products.

Inevitably, the tremendous scope and opportunity provided by the results of the Kennedy Round will have a deep and continuing impact for the Canadian export community. And because export trade accounts for about 20 per cent of total Canadian production, it will have a profound effect on the entire economy, provided the Canadian export industry is able to take advantage of the opportunities that will be unfolding over the next four years.

The most striking, and most important, reductions in trade barriers negotiated in the Kennedy Round were those on manufactured products. This is the sector which has the largest scope for export expansion. The increase to specialization and restructuring of Canadian industry which will be necessary to take advantage of this improved access for manufactured products can be assisted by the Adjustment Assistance Program announced by the Prime Minister at the end of the year.

The tariff agreements in the Kennedy Round provide for the staging of the tariff reductions. Mr. Sharp has already dealt with the staging from the Canadian side. The United States, Switzerland, Austria and Australia began on January 1 this year by making a cut of one-fifth of the total reduction on each item, to be followed on January 1 of each of the four succeeding years to complete the

process on January 1, 1972. Other major participants such as the EEC, Japan, United Kingdom and other EFTA countries are to make a two-fifths cut on July 1 this year and three further one-fifth cuts on January 1, 1970, 1971 and 1972. In some instances where tariffs were already low, the United States will be making its total reduction in less than five stages.

Mr. Chairman, we were very conscious of the need to bring the results of the Kennedy Round fully to the attention of the Canadian business community as quickly as possible after the agreements were signed. The most valuable element of our program in this regard was the series of Kennedy Round seminars which were held across the country last fall, in cooperation with provincial governments and other federal departments and which were attended by some 3000 businessmen.

• 1455

In the Department of Trade and Commerce we have been planning and re-organizing to give the maximum support to the Canadian business community in its efforts to take full advantage of the Kennedy Round results. Some of these more important changes are:

1. As of January 1 the Department has been re-organized and streamlined to provide for two major functional groups. All services, whether in Canada or abroad which have a promotional function, are now concentrated under a single Assistant Deputy Minister (Trade Promotion) namely, Mr. A. G. Kniewasser, while all services having to do with inter-governmental negotiations and arrangements bearing on the protection and creation of access for our goods in foreign markets, will be concentrated under another Assistant Deputy Minister Mr. M. Schwarzmann, (Trade Policy). These changes will provide a more homogeneous grouping of functions, designed to make of Trade and Commerce an even more efficient, forward-looking agency of government serving our export needs, and so the prosperity and growth of Canada.

2. During 1967 we had a number of meetings of the Export Advisory Council which was established at the beginning of 1967. The experience and the wealth of knowledge which the members of the

Council bring to bear are especially useful to us and I am confident that this relationship will become even closer and more productive in the months ahead.

3. Over recent months we have been encouraging all specialized Canadian trade and industry associations to set up export councils where this has not already been done, so as to provide a new focus on export opportunities within industry groupings. We have had a very good response and the Department will be working closely with these new groups to maximize their efforts.

4. Last September I announced that the Export Credits Insurance Corporation would begin to accept applications as a normal rule for cover on exports to the United States. By December 31 insurance had been written on some \$5 million of Canadian sales to that market and we had a very great demonstration of interest.

5. As part of a comprehensive look at the adequacy of Canadian financial facilities for export, both public and private, the services and capacities of the ECIC, the Export Credit Insurance Corporation, are being re-examined. The underlying objective is to ensure that our financial services in support of export are kept fully competitive with those offered by other countries and flexible enough to meet changing and growing requirements. We are also conducting an examination of additional ways and means by which to provide greater support to our exporters.

6. In support of the work of the National Design Council a "Design Export" group has been established in the Department to ensure that all promotional activities take account of the role which improved industrial design can play in improving Canadian export performance. Following consultation with the National Design Council, a "Design for Export" program is being initiated involving displays and promotions through selected Trade Commissioner services.

7. Trade Commissioner posts have been recently opened in San Francisco, Nairobi and Belgrade and I expect to attend the formal opening of another Trade Commissioner office in Dallas, Texas on Friday.

8. We shall be further improving our normal export services and tailoring them more clearly to current needs flowing from the Kennedy Round. The toll-free Zenith telephone hook-up which we introduced last year and which was successful will be continued; the orientation of all our activities will be even more closely directed to new export opportunity. I have also asked for a review of the sharing of costs of trade fairs between the Department and exporters who benefit therefrom thereby permitting the expansion of this useful function with funds available from government sources; that is, to spread them to better advantage.

The Kennedy Round Mr. Chairman, has been a major step forward in the process of reducing barriers to the flow of international trade. But for a country like Canada, so dependent on a healthy international trading climate for a strong and growing economy, continuing moves toward trade liberalization are necessary. While the first priority must be the full implementation of the Kennedy Round results, including the International Grains Arrangement, we must also work for measures which will continue the process of freeing up world trade.

• 1500

It was to this end that I participated in the GATT Ministerial Meeting last November to set out a work program for the member countries of the General Agreement. In Geneva, I presented Canada's views and suggestions on the future work of the GATT. I was able to propose that we "...reaffirm (our) basic policy commitment to the cause of freer multilateral trade and (our) determination to ensure that the impetus to trade liberalization given by the Kennedy Round is maintained". I put particular emphasis on the desirability of the sector approach in future trade negotiations. While we recognized that no major new negotiations on a comprehensive basis could be expected in the near future, we did agree on the need to investigate those areas where further international negotiations would be beneficial. The complexities of the problems that remain and the uncertainties of this post Kennedy Round world require that a great deal of preliminary work be done. And that is what we and our trading partners agreed to begin. The work program will be focussing on

three main areas; trade in industrial products, agriculture, and problems of the less developed countries.

In the Kennedy Round we maintained close touch with the Canadian business community and we intend to maintain the same close contact in this further work program and as you know, the next meeting of UNCTAD is being held in New Delhi early in February and we are, of course, planning to attend that and most of the attention of UNCTAD will be devoted to the problems of less developed countries.

Mr. Chairman, although the final figures are not yet in, it is clear from the data available that Canadians have met the 1967 export target of \$11.25 billion which the government set. This year will be one of great opportunity to Canadian exporters, representing as it does the first year of the implementation of the Kennedy Round results. I look to the vigour and the ingenuity of Canadian exporters to meet the 1968 export target of \$12.3 billion which is over \$1 billion for each and every month.

Thank you, Mr. Chairman.

The Chairman: Thank you Mr. Winters.

Now we are open for questioning and those who would like to be recognized will signify in the usual way. I see Mr. Hees, Mr. Macdonald, Mr. Lambert, Mr. Mackasey and Mr. Clermont.

Mr. Hees: We have all been very interested in the comprehensive report given by the Minister. I was interested in a headline appearing in the *Globe and Mail* business section this morning at the top of the page, headed: "Uncertainties Mar Export Picture, Prompt Winters To Set Up Easier Target". I wonder if the Minister could explain to us what the uncertainties are and just how much this can be expected to mar the target for this year.

Mr. Winters: Well, Mr. Hees, I do not know what the writer had in mind about uncertainties. I presume he had the program announced by the President of the United States and, perhaps, the difficulties in the field of selling wheat. He might have had in mind other areas with which I am not familiar, but I think that we can contain some of these uncertainties if we work in the right directions and we think we are doing that now. We are trying to solve this problem of

barriers that the President of the United States indicated he might have to implement. We are roaming the markets of the world looking for outlets for our wheat and we are meeting some success there and we hope to encounter more although I acknowledge, as I have done, that the selling of wheat this year is going to be considerably more difficult in a more highly competitive world and there has been more production of wheat and the distribution of the production has added to the competitive problem. But if you put against that the opportunities offered by the reductions in tariff provided by the Kennedy Round and the developing world markets, generally, I see no reason at this stage for changing, particularly lowering, the export target of \$12.3 billion for 1968.

Mr. Hees: Thank you for your explanation, Mr. Minister. I was interested in this article written by Mr. Michael Gillan and I thought it must be based on something. I was just wondering what it was.

• 1505

I wonder if the Minister, Mr. Chairman, could bring us up to date on what his feeling is having had talks, I feel sure, with his opposite number in the United States regarding the possibility of border taxes being imposed against Canadian exports to the United States and also the question of the possibility of quotas being opposed. What is the latest information on those two possible impediments to Canadian trade with the United States?

Mr. Winters: The American government is considering a series of measures covering quite a broad spectrum to reduce their adverse balance of current account by something like \$3 billion and it covers the flows of capital reductions in their own areas of expenditure and an improvement in their export performance. They have a considerable export surplus. Much of it is generated in their trade with us and while any measures they would take would not be primarily directed against us, they are directed against the border taxes implemented in the European countries the first of January, we would, perhaps, get caught up in it unless some action were taken to offset that.

You can well imagine that we have been very close to the United States authorities in this to try to explain to them our very real concern, the very favourable trading balance they have with us, the importance of the United States to Canada as a trading country

and vice versa and we have not yet been apprised of the program that they intend to work out. I would imagine they would be considering it from all angles, but we are trying to anticipate any programs that might be developed and developing offset arguments of our own.

We are still hopeful that such a program will not be implemented because a program once it is implemented no matter for what reason, prompts other countries to take counter measures and these can become over-balanced in some areas. This can lead to a general round of high tariffs and trade impediments which will be harmful to the very spirit that we have all been working to achieve under the Kennedy Round of negotiations.

Mr. Hees: Mr. Chairman, the Minister was talking about steps to increase trade. I was just wondering if he could let us know the number of trade missions from Canada that were sent out around the world last year as compared to the year before and the year before that, if the figures are available.

Mr. Winters: Mr. Schwarzmann has them.

Mr. Hees: I might mention, also, a couple of things that they might look up and then you can answer questions of other members who want to ask them.

I would be interested in the number of trade fairs that we participated in last year compared to the year before. Also, in view of the great need for increasing our exports of manufactured goods because of their high labour content, could I be advised as to what was the increase in our sales of manufactured goods last year over the year before, if those figures are available?

Mr. Winters: We will get those for you.

I have something here now on the trade fairs or missions.

Mr. Hees: Yes.

Mr. Winters: For the fiscal year 1968-1969 the program envisages exhibits at 78 trade fairs in 11 countries. In the calendar year 1968 there will be exhibits in 53 shows. The missions program includes 17 outgoing and 13 incoming trade missions.

Mr. Hees: How many outgoing?

Mr. Winters: 17 outgoing and 13 incoming trade missions. You wanted the comparative

figure for the year before. We will get that. We will get you the figure on the increase in the export of manufactured goods.

Mr. Hees: I would like to have the figures and what percentage our manufactured goods were of our total exports for last year.

The Chairman: I will now turn to Mr. Macdonald...

Mr. Macdonald (Rosedale): Mr. Minister, my first question is with respect to the proposed American import taxes and export subsidies. Under the general agreement on tariffs and trade the United States has undertaken not to raise the equivalent of tariffs at the border on incoming products and not to impose export subsidies. What authority is there in the general agreement for this program which President Johnson is talking about?

• 1510

Mr. Winters: It might be that they would have to enter into re-negotiations of the terms of the agreement. I do not know what program they will bring forward, so one cannot comment very knowledgeably on that.

Mr. Macdonald (Rosedale): Presumably we would then be under the same difficulty. We would have to go back to our GATT partners.

Mr. Winters: It depends on the nature of the taxation, whether it is direct or indirect taxation, and there are provisions in the GATT Agreement to cover that. One of the problems of the United States is that they do not have the flexibility at the federal level on indirect taxes, as do some of the other countries.

Mr. Macdonald (Rosedale): Referring to the American selling price system and the changes there, are there any practical effects on these proposed amendments so far as Canada is concerned?

Mr. Winters: I would think so. This only applies to benzenoid chemicals and it is going to be implemented in stages, but I would think that the Kennedy Round would provide opportunities for the chemical industry in Canada in the benzenoid area, although I am not an expert in that field.

Mr. Macdonald (Rosedale): There has been a squeeze on us as well as on the European exporters.

Mr. Winters: Yes.

Mr. Macdonald (Rosedale): If I could now move to the question of the food aid arrangements, in the publication of your own department dated July 1, 1967. Table 2 on Page 10 indicates the food aid contributions and some of the primary wheat producers, such as United States, Canada and Australia are indicated and the European Economic Community is also shown. Is it understood that the contributions to the program can be both cash and kind?

In the case of the EEC, what is the particular division between cash and contributions in kind?

Mr. Winters: My understanding is that they were now going to put up their share in kind. How much is there? What is the allocation for the Common Market? It is understood that the European Economic Community will put theirs up in kind and the percentage is 23.0.

Mr. Macdonald (Rosedale): Their entire contribution will be in kind rather than in cash?

Mr. Winters: I anticipate that theirs will be in kind.

Mr. Macdonald (Rosedale): In terms of world wheat prices this would be essentially from non-competitive sources, would it not? French producers are not as efficient, for example, as Canadians?

Mr. Winters: They produce a different variety of wheat and on an acreage basis they get very high production. They are now selling their wheat at prices which are lower than some of the competition, and in some areas it is lower than we would like to see, but the fact that they take this amount of wheat off world markets through this food aid program should help the competitive position of the exporting countries.

Mr. Macdonald (Rosedale): I am thinking of the EEC's variable levy system for agricultural products, and it strikes me that combined with this, this could be an incentive for inefficient French producers to increase their production at the expense of the hungry people of the world. Surely if you are maximizing aid to the underdeveloped countries you should do it from the cheapest possible sources rather than using it as a subsidy to inefficient producers.

Mr. Winters: I think as a general statement that is true and in principle I accept that.

Mr. Macdonald (Rosedale): Was there discussion with the EEC delegation on this point?

Mr. Winters: No. It was just on the amount of the total food aid and the proportion which they would make available.

Mr. Macdonald (Rosedale): There is this reference on page 11:

that preference be given to developing countries as a source for the purchase of grains from cash contributions.

If the EEC is contributing cash and Canada, Australia and the United States are presumably contributing in kind, the amount of funds available therefore from other sources for purchases from Argentina specifically will not be very great, will they?

• 1515

Mr. Winters: I do not understand the question. This would all go in to advance a certain percentage of this total food aid commitment.

Mr. Macdonald (Rosedale): Yes, but presumably there is a preference for the benefit of Argentina in particular to make cash purchases there. Where is the cash coming from that the EEC is contributing in kind?

Mr. Winters: The cash contribution will, of course, come from the non-wheat producing countries but I do not believe that Argentina would get a preference in this area.

Mr. Macdonald (Rosedale): What other developing wheat producing country is there?

Mr. Winters: Are you reading from page 11?

Mr. Macdonald (Rosedale): Page 11, the second column.

Mr. Winters: We have different page numbers on our copy. Can you wait until I can give a ready answer to that? At the moment I am unable to give that answer.

Mr. R. M. Esdale (Chief, Grain Division, Department of Trade and Commerce): Mr. Chairman, on the first point, most of this wheat in the allocations that were negotiated was expressed in terms of wheat and most of it will be supplied in the form of wheat. However, there are some countries that will have to provide cash in order to honour their contribution and in the agreement there is a preference that was negotiated by Argentina. They argued that as this wheat was going to

developing countries, on the opposite side of the fence they were also a developing country and they felt entitled to sort of a corresponding break in being treated as a developing country, as it were. Although the cash contributions in the total will not be large, there is provision for the Argentine to have a slightly higher percentage of those purchases than the developed exporters.

Mr. Macdonald (Rosedale): With regard to the general question of reduction of tariffs, and more particularly on the matter of making Canadian secondary manufacturing more competitive on the world markets, I put the question to the Minister of Finance yesterday in the form of a metaphor about steeplechasing. While it is all very well to reduce the level of the foreign jump that you have to go over, if in fact you are adding to the costs of the Canadian jumping horse by high Canadian tariffs on industrial materials, then in that case you are really working against your purposes.

Mr. Winters: I think under the Kennedy Round we perhaps have the best of both worlds. We aimed at getting a reduction in tariffs on the elements that go into production and in getting a reduction in tariffs abroad on the finished products which go into foreign markets.

Mr. Macdonald (Rosedale): I notice in looking through the resolution that on some of the items under ferrous metals there are various rates of tariff even after the Kennedy Round provisions come into full effect. For instance, iron or steel angle beams, et cetera, will be coming from most favoured nation sources, such as Japan and the United States, at a 17½ per cent tariff and cold rolled or cold drawn steel will be at a 12½ per cent tariff MFN. As a forward policy, what about the unilateral reduction of Canadian tariffs on industrial components, as opposed to...

• 1520

Mr. Winters: Well, in most of these areas we are pretty self-sufficient anyhow, and our imports, except for specialty products, do not amount to a great deal; but even in those areas there have been some reductions, albeit pretty insignificant. But I do not think any trading country in the world today is going to make unilateral trade tariff reductions without getting something in compensation for doing so.

Mr. Macdonald (Rosedale): One thing in compensation, surely, would be improving the competitive position of our industry.

Mr. Winters: I do not see that this is the way to do it. We are pretty competitive in our steel industry within Canada; we are pretty good on that. We import some incidentals here and there, and for various reasons—I will not say it is sold at a loss from producing countries abroad, but some pretty cheap steel is offered sometimes because there is a surplus of steel in the world today; there is surplus capacity, and surplus production. The steel industry around the world happens to be soft. It is soft in Canada. I think there are signs it is strengthening. But we are pretty self sufficient in steel here, and we are pretty competitive.

Mr. Macdonald (Rosedale): I wonder, Mr. Minister, if I could address a question to Mr. Schwarzmann? His friends in the Department of Finance were kind enough to say yesterday that they could not answer a question but they were sure he could. I could take advantage of his presence here to put it to him.

Mr. Winters: That is all right.

Mr. Macdonald (Rosedale): We had a discussion yesterday on the question of the MFN treatment going to the benefit of state trading countries, like the Soviet Union, without any reciprocal concessions. From there we got into a discussion of how this problem of want of reciprocity had been dealt with specifically in GATT in dealing with Poland and Yugoslavia—two state trading countries. I wonder if Mr. Schwarzmann can refer us to the conclusions arrived under either the Polish accession, or arrangements with Yugoslavia in this regard?

Mr. Winters: It is simply the relationship between what they buy and what they sell to us, and in return for that they get MFN treatment. But most of these countries buy considerably more from us than they sell, so without the incentive of the MFN agreement there would be no inducement for them to enter into a trade contact with us at all.

Mr. Macdonald (Rosedale): That is the state at the moment, but what if the balance changes?

Mr. Winters: We will then look at the MFN factor, which we are doing now as some of these come up for renegotiation, and in any

new negotiation we see what we think the MFN is worth and if we cannot get what it is worth we do not enter into agreement.

Mr. Macdonald (Rosedale): But there is no specific saving of the position when Poland or Yugoslavia came and got the benefit of the general agreement?

Mr. M. Schwarzmann (Assistant Deputy Minister, Trade Policy): Well, Mr. Chairman, Yugoslavia participated in a tariff negotiation. Yugoslavia's economy is such that the tariff has some effect as an instrument of protection. So that Yugoslavia accession, participation in the Kennedy Round, was on the basis of tariff commitment.

Poland, as a state trading country—there is a distinction to be made between the nature of the system in Yugoslavia at the moment, and Poland and Czechoslovakia, and some of the other countries—participated on the basis of commitment to increase its total imports—that is, purchase commitments—from GATT countries by a certain percentage, increasing seven per cent a year or something like that. This kind of commitment was the basis of the negotiation with Poland.

Mr. Macdonald (Rosedale): And will they lose the benefit of the MFN treatment if they fail to attain the target stated?

Mr. Schwarzmann: Well, this is the equivalent of a tariff commitment; it is an attempt to translate the tariff concession in terms of a state trading country. Then, of course, this would re-open the whole question of their position in the GATT at that time.

Mr. Macdonald (Rosedale): There are a number of specific items in the publication of July 1. I wonder if they should be addressed to you or someone else?

Mr. Winters: I would like to deal, if I may, with the policy aspects.

The Chairman: I should remind the Committee that after we hear from Mr. Winters and complete our study of certain specific programs that we began yesterday, we will have Dr. Annis, Director of Tariffs, with us, who will make a detailed presentation on the tariff concessions. He will be joined by Mr. Schwarzmann who will be available to relate them to the concessions that the Department of Trade and Commerce won for Canada in the negotiations.

• 1525

I think this will permit a very detailed examination of this whole picture by the Committee. Perhaps we could reserve questions of this type, questions not of a general policy nature, for this state in our deliberations. Do you have further questions?

Mr. Macdonald (Rosedale): In that case I will not ask any more questions.

The Chairman: Then I will recognize Mr. Lambert.

Mr. Lambert: Mr. Chairman, I wonder whether the Minister could elaborate upon the trend of trade with the known GATT participants in that group of countries known as the eastern European countries? As we see in the publication, Yugoslavia, Poland, and Czechoslovakia were among those who participated in the Kennedy Round, although they may not qualify as fully GATT countries. What is the trend in the trade with these countries, and how does the Minister envisage the evolution of the bilateral agreements we may have with certain of these countries in the light of our reductions in the MFN provisions under the Kennedy Round?

Mr. Winters: The evolution of trade in the ordinary category of products has been slow growth, and I think it is apt to be slow growth. Our major export to these countries has been wheat, and that has largely been the reason for the trade agreements. In return for their purchasing large quantities of wheat, we extend MFN treatment.

This year most of those countries had good wheat crops, so the sale of wheat to them was difficult. That is why I talked in terms of the distribution of the production, which was on a world basis higher than last year, but it was distributed in such a way that our markets were better served than had been the case, making selling difficult.

This is, as I said some time ago, taking better shape now; there is a better world distribution, the surpluses are being worked off, and markets are returning more nearly to normal. Wheat excluded, the sales growth to these countries has been steady but slow. They are selling machinery to us, and that sort of thing which they want to sell more and more.

All these countries want to sell us manufactured products, and we are selling to them the things they need—basically, raw materials.

We are now trying to sell them some manufactured goods with some success. But it is their markets we have to work at, and they will respond to hard work and representation by the Trade Commissioner Service and by business people. I would like to see more Canadian businessmen in these countries, and they are doing that now.

It is going to be steady, but it is going to be slow.

Mr. Lambert: Well, in essence, of course, we are only speaking about Rumania and Hungary, are we not? When I say the non-GATT, or the non-Kennedy Round, or the Soviet Union if I may say so—outside of wheat, our sales to that country are negligible.

Mr. Winters: They are not high; we do have sales there, though.

Mr. Lambert: And they do not sell a great deal to us because we tend to produce many of the same things that they do.

Mr. Winters: Well, there is a developing trade between us, not only for wheat. But wheat, as I say, is the big article of trade. If you wish, we will provide more precise figures on that later on.

Mr. Lambert: No, I am just asking this in a general policy way, with regard to, say, Hungary and Rumania who are, I think, the two big remaining countries which you might call eastern European countries, who were not participating in the Kennedy Round.

Mr. Winters: We have trade agreements with them. Our trading position with Hungary is difficult now because of the wheat situation, but that is straightening out. Our trading relationship with Rumania is just starting.

Mr. Lambert: And have you any particular efforts pointed towards those two countries?

Mr. Winters: Through our Trade Commissions.

Mr. Lambert: Or is it just on the general pattern?

Mr. Winters: No, they will undertake to buy a certain quantity of goods—a certain dollar value of goods—and in return for that they get MFN treatment, but it is open to them to take the goods they want within that dollar value.

Mr. More (Regina City): Did we involve ourselves in any exhibits in those countries—trade fairs?

Mr. Winters: Yes, we do. In the case of Rumania—and I want to correct what I said—they are still operating under a general tariff; we have not yet reached the conclusion of an agreement with them so they do not get the MFN yet.

• 1530

Mr. Lambert: Now, switching over to another aspect, on page 4 you indicated that you were hopeful the United States would eliminate the A.S.P.

Mr. Winters: Yes.

Mr. Lambert: What prospects of that have we during an election year?

Mr. Winters: They gave an undertaking at the time of the conclusion of the GATT agreement that this was going to be a staged reduction of the tariff on benzenoid chemicals in particular, which is where the A.S.P. applies; that the tariff would come down a certain amount and then they would get legislation in the Congress to remove the A.S.P. Now, what was the timing on that, Maurice?

Mr. Schwarzmann: On the A.S.P., the European Economic Community, in the negotiations, linked the full completion of their own tariff cuts on chemicals to the United States going ahead with A.S.P. I am not sure whether there is a precise time limit. I do not think there is but it is expected that by July, which is the date of the first implementation of the EEC tariff cuts, the United States should be considering getting this legislation.

Mr. Lambert: Well, is the Minister actually hopeful about this in view of the fact that we have heard of these attempts or these certain movements in the United States towards greater protection in the United States, and notwithstanding the commitment of the American administration, they will have to beat those back, but in addition to that, they will have to go one step further and convince Congress to pass the legislation doing away eventually with the A.S.P.

Mr. Winters: We live in the hopes that it will be done. We have the assurance of the President and the administration that they will do everything they can to do it. I cannot give you any more assurances than that.

Mr. Macdonald (Rosedale): Mr. Chairman, just on that point; what concessions will fall by the European Economic Community to the Americans, and therefore, to us, if the Americans fail to act on this? In other words, is eliminating A.S.P. a condition of the Europeans granting something; if so what will we lose if they do not do it?

Mr. Winters: It is part of the package and if they do not do it we would have to consider what our position is. We would have to consider what benefit we could contemplate getting if they did do it, and then withhold a certain benefit to that extent. I do not know how we would do it.

Mr. Macdonald (Rosedale): To what extent could the EEC say that they had given certain concessions to be multilateralized by MFN, but the Americans had failed to provide the *quid pro quo* for those, and therefore, they were going to withdraw those concessions?

Mr. Winters: Perhaps Mr. Burns could add something on that. He sat in on all these negotiations at Geneva.

Mr. T. M. Burns (Director, Section II, Office of Trade Relations, Department of Trade and Commerce): Mr. Chairman, the A.S.P. agreement was a separate agreement in the Kennedy Round, concluded essentially between the United States, the EEC, the UK and Switzerland. The United States agreed, in the main Kennedy Round agreement, to make 50 per cent cuts in its present rates on chemicals, and in the separate agreement the United States agreed to seek, through the Congress, an elimination of the A.S.P. system of evaluation which would involve a greater than 50 per cent cut in effective tariff rates.

• 1535

If the United States does not fulfil its second commitment, the European Economic Community will make tariff reductions that are about 20 per cent of the present levels in their chemical sector, and the UK will make something of the same kind of rather smaller reduction in its chemical tariffs. But given American action, the EEC will go to 50 per cent pretty well across the board in chemicals and in addition will move on a couple of non-tariff barrier issues, including one in the automobile field relating to the annual road tax charged in a number of the EEC countries. The UK will make an additional concession as well, if the A.S.P. agreement is fulfilled by the United States.

Mr. Macdonald (Rosedale): And those concessions by the UK and the EEC could be of benefit to Canada as well as to the Americans?

Mr. Burns: Mr. Chairman, first of all, I should mention our current pattern of exports of chemicals to the EEC are in a rather narrow range. I think in terms of future provisions there is an interest in expanding this range and clearly in relation to the EEC concessions a reduction of 20 per cent rather than 50 per cent will have some influence on the opportunities that are available.

Mr. Macdonald (Rosedale): Thank you, Mr. Chairman.

Mr. Lambert: In this connection, in effect, in Great Britain it would not really affect us too much because we are under the B.P. But with regard to the EEC, what about the potential for potash there? Are we caught in any way? I am looking at the expansion of our vast potash potential and that is conceivably—not perhaps next year or the year following—because of the vast demand for potash, particularly in western Europe, we would have a market there. But it could be adversely affected by, shall we say, a default by the United States, and the compensating action in the EEC and we would be hung up.

The Chairman: Perhaps Mr. Schwarzmann can deal with this in greater detail when he has the stage.

Mr. Lambert: Then with regard to the wheat agreements, we have seen some various reports that one of the reasons there was not a firm conclusion of the Wheat Agreement this year, 1967, and we have this sort of one year gap, is that Canada and Australia engaged in some form brinkmanship. This is an assessment I have read. What did happen and why was there this, shall we say, hiatus?

Mr. Winters: Well, I know of no foundation for the rumour that there was a duel of brinkmanship between Canada and Australia.

Mr. Lambert: No, no. But Australia and Canada were acting in the same way and they were tabbed with the brinkmanship label.

Mr. Winters: No. I do not know of anything that would give rise to that rumour. The reason for it was that the Americans had to go through the constitutional processes of Congress and the EEC, being an association of six countries, had to get the authorities from all

the countries and they were not able to get them in time. On that grounds, they said they could not implement this until January 1, 1968, despite the fact that some of the rest of us were pressing for earlier implementation.

Mr. Lambert: It was somewhat convenient then for the United States to engage in what in effect has been price cutting in the wheat market.

Mr. Winters: I think those who negotiated, and the administration, would like to have seen this agreement comes into effect at once. I saw no inclination to have it postponed and the current disposition of the administration certainly is to implement it.

Mr. Lambert: Yes, but in the net result we have got rather the back of the hand.

Mr. Winters: Well, the end result is that we are without an International Wheat Agreement, and for that reason, the Canadian government had to give assurances to the Wheat Board that for every contract of wheat made they would be paid at the minimum price.

Mr. More (Regina City): Mr. Winters, there are rumours that the United States is taking part of what has been our Japanese market, and that they are subsidizing their deliveries of wheat to their western seaboard for this purpose. Is this breaking any agreement?

• 1540

Mr. Winters: It is not breaking any agreement; it is compensation for a market to which we attached a lot of traditional importance, and it is true that last fall our exports declined quite substantially, and I would imagine, at the same time American exports to Japan went up.

Mr. More (Regina City): Have you any of the figures?

Mr. Winters: You may recall, I then went to Japan, at that time, as soon as we saw the situation. We had some very fruitful negotiations there with the Japanese, and our exports to Japan have now returned to a more normal level.

Mr. More (Regina City): We have had to take action to meet the competition that the United States has...

Mr. Winters: We have had to take aggressive selling action—price action. We did not get into any price war with the Americans, I can tell you that.

Mr. Lambert: I have one final question, if I may on this round. It deals with the Minister's anticipation of increasing trade, particularly in the manufacturing sector, and this is in the face of the effects of sterling devaluation, the Kennedy Round cuts in tariffs, and what has been a persistent and rather worrisome decline in the manufacturing productivity quotient here in Canada. I will admit the government should not be held responsible entirely for the decline in productivity, but I think if it sets targets and anticipates its trade is going to improve, and yet because our productivity is going down, this becomes a rather unrealistic argument.

Mr. Winters: Our productivity is not going down. It is not increasing as fast as we would like to see it increase. It is not increasing as fast as the productivity increase in the United States, so we are relatively being less competitive with the United States, because our productivity is not keeping pace, but it is increasing. However, there are pluses around the world in the trading picture, too, and one of them, of course, is, as I said in reply to Mr. Hees, the increasing world demand. We are pretty favourably situated with our very large abundance of raw materials which are in demand to service the markets of the world, and we will increase in these areas.

Mr. Lambert: That is in the raw materials, Mr. Minister, but I am talking about where you and I want to see the greatest impetus in our trade, and that is in the manufacturing sector.

Mr. Winters: So do I.

Mr. Lambert: And yet while we are advancing those hopes, the true picture is that we are becoming less competitive.

Mr. Winters: We have to look at competition in different areas. With most of the rest of the world, we are not becoming less competitive. Our productivity is good compared to some other countries, and it is not so good compared to the United States, which is the standard by which we have to govern ourselves because that is our biggest trading area. Some of us have been preaching for a long time the importance of getting our productivity up and the consequences of losing our competitive position. I think we should be dedicating ourselves, as a country, to establishing our competitive position and, particularly now, when we have an opportunity of gaining ground on the United States, we

should not be dissipating this, and, on the contrary, losing ground.

Mr. Lambert: It is all very well to talk about it, but what is being done about it in so far as getting management and labour together, along with government?

Mr. Winters: I think the trade figures reflect what is being done about it. We did meet our targets. People talked this way last year about the 11.25 billion target. They had the same worries and fears and so did I about our productive position, and I have said so on many, many occasions.

Mr. Lambert: But that is not an adjusted figure, though. The gap is much narrower.

Mr. Winters: The gap is narrower because some of it is price and some of it is inflation. I accept that, but that is a factor of life in every country. But the fact of the matter is, our exports were up substantially over last year and when setting our target of \$11.25 billion, we recognized that there would be a price factor, and we met the target. We have set a target of \$12.3 billion for 1968 and as of this time I am confident we will meet that target, too.

• 1545

Excuse me, Mr. Chairman. I have just been told we have the figures of the manufactured goods here, and perhaps Mr. Schwarzmann you would read them because they are in your writing.

Mr. Schwarzmann: The estimated increase in exports of fully manufactured goods for 1967 as compared with 1966 is \$900 million, or a 40 per cent increase. In 1966, the figure was \$2.1 billion and the estimate for 1967 is \$3 billion.

Mr. Saltzman: Is this mostly in the automobile industry?

Mr. Schwarzmann: Yes, the automotive field was the main sector that was increased but there was an increase in other fields.

Mr. Saltzman: But the greater percentage of that increase is directly attributable to the auto industry?

Mr. Winters: But there has been a healthy growth in our manufacturing sector apart from the automobile industry.

Mr. Lambert: But, as a commentary there is almost a corresponding increase in imports for the very same reasons?

Mr. Winters: Yes; we have had a healthy rate of imports too, but the good side of the picture is that our exports grew more than our imports and we ended up 1967 with what I would guess would be a surplus on our trade account of something of the order of \$450 million, which is a substantial contribution to our adverse balance on current accounts.

Mr. More (Regina City): Mr. Chairman, may I ask the Minister just one question.

The Chairman: Please, gentlemen, I think to keep this orderly we should stick to our usual procedure and follow our list. Our usual procedure with respect to supplementary questions or interruptions is to ask if the person who has his name on the list is willing to yield. Mr. Clermont has been waiting patiently to assume his right to speak.

Mr. Clermont: I have no objections, Mr. Chairman.

The Chairman: Maybe we should ask Mr. More to ask his question first, followed by yourself.

Mr. More (Regina City): My question is simply this, Mr. Minister, do you expect the impact of the auto agreement to be anywhere as substantial as it was in 1967?

Mr. Winters: I think that is a question Mr. Drury could answer better than I. We are not looking for quite the same degree of growth in 1968 as we did in 1967. I suppose this will level off a bit in the years ahead, but we are looking for, nevertheless, a considerable improvement in our exports of automobiles, automobile parts and accessories from Canada in 1968.

Mr. More (Regina City): But, given the problem in wheat sales and with less expectation in the auto field, is your target really realistic?

Mr. Winters: Well, we will see. I say, yes, but we will see. We export a lot of other things, too, you know.

Mr. More (Regina City): I realize that, but do you figure last year was reached because of a couple of major...

Mr. Winters: But we took all those into account. We did not set this target just on a

national basis; we polled all our trade areas around the world as to what they thought their growth would be. This is a broadly based target and on the strength of that we have set the target and we have assigned individual targets to all our trading areas around the world, with the concurrence of our trade commission. These are objectives for them, as well as for the trading community of Canada as a whole.

I think it is realistic at this stage.

The Chairman: Mr. Saltzman?

Mr. Saltzman: My question is just for clarification. I was wondering if the figures given to us by the Minister were just the merchandise figures or did they include the travel figures as well?

Mr. Winters: Just the merchandise.

Mr. Saltzman: Just the merchandise, thank you.

The Chairman: Mr. Clermont?

Mr. Clermont: Mr. Chairman, perhaps I could start as our colleague from Northumberland started by reading an article that appeared in the *Toronto Globe and Mail* on December 29, 1967. It was written by Mr. Royd Beamish. I will read two paragraphs and I would like to have your comments.

Studying the list of tariff resolutions presented to Parliament, it becomes clear that Canada's negotiators played a pretty good game of poker at Geneva.

Their selective cuts, balanced against the across-the-board offer of the United States, were calculated to produce the greatest good for Canadian consumers in return for the least damage to our producers.

• 1550

Mr. Winters: That is right. I accept that as a tribute to the negotiating team at Geneva which I think was absolutely first class and unrivalled by any other there. I think they did a good job. What enabled Mr. Beamish to say what he said was the fact that we were able to negotiate on a commodity-by-commodity list, whereas most of the industrial countries against which we were negotiating—all the large ones—were negotiating on an across-the-board basis. We were able to give our concessions in areas where they were apt

to be least harmful and gain penetration into this board area of manufactures by these across-the-board cuts.

[Translation]

Mr. Clermont: Mr. Winters, do you think it would be possible for certain sectors of Canada's secondary industry, to ask the government to accelerate tariff changes, rather than doing it step by step until 1972, that is in 5 years?

[English]

Mr. Winters: Well we have in some areas. The machinery program was implemented on January 1. There were some other segments in which the tariffs were implemented at once on January 1. Others will be staged over the whole five-year period.

[Translation]

Mr. Clermont: Here is my other question, Mr. Winters. In certain areas of the Canadian economy, it is said that after all the changes to the tariff duties in 1972, the United States will still have higher tariffs and will give better protection to American industry than that being given to our industry in Canada.

[English]

Mr. Winters: No, I do not see the justification for that statement. On the average, their tariffs now are 10 per cent or less. Yes, I have just confirmed that on the average theirs will be considerably lower than ours.

[Translation]

Mr. Clermont: Mr. Winters, I would like to come back to a question put by Mr. Lambert with regard to productivity in Canada. If it becomes possible to increase our exports to 12.3 billion is there not a certain apprehension that the productivity gap between Canada and the United States will play against our secondary industry even if American tariffs are more favourable to us in many sectors of our economy? The Economic Council establishes this gap as being 33 per cent or less and 33 per cent or more. I think that this gap is 75 per cent attributable to the fact that United States production is more mass production than Canada's and I also think the gap is due, in certain sectors, to the big difference in wages between Canada and the United States.

[English]

Mr. Winters: Yes, I think the tariff concessions we were able to win at Geneva will help. You asked if we were apprehensive

about the target. I suppose any good target should be viewed with some apprehension, otherwise it is not a good target. If it is too easy it does not become a good challenge. All these factors were taken into consideration and weighed before we reached the target of \$12.3 billion and I can only say, again, that I think it is realistic. I think as a result of the tariff concessions which we got on manufactured goods going into the United States which were deeper cuts than we had been able to give in the manufacturing sector ourselves, except for the machinery which is largely a different category, that we will benefit and our goods, I think, will flow into the United States in a stronger volume than before.

• 1555

Mr. Clermont: Mr. Chairman, my other question will be directed to the officials of the department later on.

The Chairman: Thank you. I now will recognize Mr. Wahn.

Mr. Wahn: Thank you Mr. Chairman.

Mr. Minister, you mentioned that Canadian exports would profit as a result of these negotiations. Will the position be improved for oil, gas or other petroleum products going to the United States which, I believe, have been limited by non-tariff arrangements in the past?

Mr. Winters: Could I ask Mr. Schwarzmenn to reply to that?

Mr. M. Schwarzmenn (Assistant Deputy Minister (Trade Policy) Department of Trade and Commerce): Petroleum was one of the very few commodities which the United States legislation or the trade negotiations excluded from the negotiations. Petroleum was not included in the negotiations. Petroleum is being treated quite separately and apart from the Kennedy Round. As you know, we have other arrangements in that field. I think for gas, the United States was already duty free in that field. We did make a concession, ourselves, in gas. We cut the tariff on gas.

Mr. Wahn: I have another question, Mr. Minister. In the statement you mentioned there has been a complete removal of the duties on lumber going into the United States. Are there any quotas there or do lumber products now flow freely into the United States without duty?

Mr. Winters: There are no quotas now.

Mr. Wahn: Thank you Mr. Chairman

The Chairman: I will ask now if there are any other Members of the Committee who have not had an initial opportunity of questioning. If there are not, I will recognize Mr. Saltsman who is sitting in with us.

Mr. Hees did you have a question?

Mr. Hees: I did have a question in the first round.

Mr. Winters: Mr. Chairman, we have the figures for the trade missions which we could put on the record, now, in response to Mr. Hees.

Mr. Hees: I will be glad to speak to Mr. Schwarzmann. I want further figures. I would like to figures for the trade missions and the trade fairs all through this decade starting with 1960. I will just ask him, if I could, if he would send them to me when he gets back to the office. That is the outgoing trade missions and our participation in foreign trade fairs for every year from 1960 up to the present time.

I have another question when other people are through.

Mr. Clermont: May I ask a supplementary? Could I be supplied with the figures of exports from Canada—our full exports from 1960 to the end of 1966 or 1967. I do not want them now, but could they be supplied to me by letter?

Mr. Schwarzmann: Certainly.

The Chairman: I think Mr. Irvine has a question.

Mr. Irvine: Mr. Chairman, I would like to thank the members of the Committee for going along with me on this motion with regard to the Canadian General Electric. Since the discussion this morning I have been reading an article in the paper that I am sure the Minister has read which has regard to heavy electrical firms and the effects of the cuts in tariffs. Apparently a survey was made in Toronto covering such firms as Canadian General Electric, Ferranti-Packard Electric Limited, and Westinghouse as it relates to transformers, generators and electric motors, et cetera. There is very small item in the

Globe and Mail this morning, just one little paragraph that I would like to quote.

They generally agreed that there will be wide gaps in production schedules this year and that prolonged continuation of the trend will mean layoffs in the last quarter.

The trading changes result from the devaluation of sterling and lower tariffs brought about the Kennedy Round negotiations.

I am wondering if the Minister would like to make any statement on this now. I do not mean to throw this back to you in a hurry, sir, but I think this is of great importance to us as a nation.

• 1600

Mr. Winters: I have not seen the particular statement you refer to, Mr. Irvine. I did see a reference to a speech made by the President of the Canadian General Electric Company in which he doubted the validity of the importance we were attaching to the Kennedy Round concessions. I know that in some areas they and their associates have been competitive in the United Kingdom markets, sometimes—not always. Perhaps not in price competition, but in other factors as well. I do not know whether they had a large market in the areas of the countries that devalued. I would like to look into that more fully, if you would not mind, and comment on it, perhaps, more knowledgeably a little later.

Mr. Irvine: The statement is made here that we are in peril of losing approximately one-third of what would be a \$60 million industry here in Canada as the result of the Kennedy Round. Then further down a statement is made which I think is rather important to this Committee and I take into consideration that this is a statement in the paper and there can be some variance from the original source.

Mr. Winters: That is sometimes quite true.

Mr. Irvine: It says:

...there needs to be effective anti-dumping legislation.

I am wondering just what we have planned at the moment by way of overhauling our anti-dumping laws?

The Chairman: I should say to Mr. Irvine that I believe we will be hearing from Ross Grey, Assistant Deputy Minister of Finance,

sometime tomorrow, on the work under way to implement as part of Canadian legislation the anti-dumping code which was agreed to by the various nations and was part of the negotiations by Mr. Sharp's department and Mr. Winters' department. Although, if Mr. Winters would like to make a comment on his own I certainly will not...

Mr. Winters: No; that falls under the jurisdiction of the Department of Finance and we will be taking steps to implement the new anti-dumping code which was part of the arrangements reached in the Kennedy Round discussions.

I would like to look into that article before I comment on a loss of \$60 million in trading.

Mr. Irvine: I wish you would, because even further down it mentions the fact that all three of these firms intend, and envisage, rather large lay-off programs.

Mr. Winters: I might say that this industry is represented on the Export Advisory Council, and this has not come to me directly. I would like to have an opportunity to examine this. If that is the case I would like to be able to comment on it knowledgeably.

Mr. More (Regina City): I take it there was no suggested increase in this line of fully manufactured goods in your forecast or in your target?

Mr. Winters: I would think there was.

Mr. Monteith: Mr. Chairman, on this subject that we have been discussing, if I may refer to a matter of detail, the Minister mentioned earlier that there is a projected increase in 1968, and that 1967 showed an increase over 1966, in exports. He also mentioned that there had been an increase in imports. There did not seem to be any firm figure of how much of that increase in exports had been on account of the automobile trade agreements, although I think you intimated that there was a fair proportion of it. Can we have that broken down for perhaps the last three years and the projection for 1968?

Mr. Winters: We will get you some figures on that.

Mr. Monteith: Thank you; on both imports and exports.

Mr. Winters: They are in the tabulations we make up periodically. We can easily get that.

The Chairman: Mr. Saltzman?

Mr. Saltzman: Thank you, Mr. Chairman.

Mr. Winters, I am quite interested in this question of productivity. Some of the studies that have been made in Canada over the last ten years indicate that probably the most serious inhibition to productivity in Canada is this matter that Mr. Clermont discussed—the scale and specialization of our industry. There is some fear that, even with easier access to foreign markets, unless we do something about increasing or rationalizing Canadian industry we are not going to be able to take advantage of these reduced tariff barriers. You recognize this in your statement where you say that increased specialization and restructuring are going to be necessary.

My question is: What recommendations has your department made within Cabinet for the restructuring of Canadian industry? What specific proposals does the government have on how to do this?

• 1605

Mr. Winters: I am not prepared to tell you what recommendations we have made in Cabinet. I think that is privileged.

Mr. Saltzman: I realize that. What recommendations have you made that you are prepared to discuss in committee?

Mr. Winters: We have been working now to achieve greater penetration by what we call a sectoral approach in those areas where Canada is good and can stand competition, and we have been talking a lot about freer trade in aluminum products and in forest products so as to give us an opportunity for the longest possible runs of production.

Productivity is the result of many factors, as you said—labour, management and wages, and the cost of all the factors that go into the cost of the product, such as taxes.

Generally speaking, our productivity is increasing. In the automobile industry it has done quite well. In some other segments of our productive effort in this country we are competitive on a productivity basis, but where we have short runs we are not so apt to have the same measure of productivity. These are the areas in which we have to try to get access to broader markets. This is why we pushed so hard for reduction of tariffs in the industrialized countries on the across-the-board basis, without giving up the same measure of tariff cuts ourselves in these

areas. The tariff cuts we gave up were in areas where we could stand it—in the fields of primary products and in machinery where we need the tools to produce in Canada and where we want to get the cost down. We tried to reduce the costs that go into production and at the same time open the markets for our products.

You may say, "You cannot have the best of all worlds always", but because of the particular character of Canada's economy we were able to do that this time in this round of negotiations.

Mr. Saltsman: For many of our highly manufactured products there is, in effect, practically no tariff so as far as the United States is concerned. With the reduced rates and with the value of the Canadian dollar we have, in some ways, access to the American market but because many of our plants in secondary manufacturing are U.S.-owned subsidiaries it is difficult to anticipate that they are going to compete back against their own parent in the United States. Have you had any indication that U.S. subsidiaries are prepared to do that now?

Mr. Winters: Yes. In many instances we have direct knowledge that they are competing back against their parent in the United States—sometimes successfully.

Mr. Saltsman: Reverting to the aspects of productivity and scale and specialization of our industry, I would still like to know whether, besides tariff reductions, any other attempts are being made to increase specialization in Canadian industry. For instance, for export purposes you have removed some of the provisions of the combines legislation to enable manufacturers to work together for export purposes. Are you considering any other such methods for domestic production?

Mr. Winters: I suppose one could say that the adjustment assistance provisions are designed to that end, to enable producers to get into areas in which they can perform more efficiently. That is the whole idea of it.

The Chairman: And, I presume, the machinery program.

Mr. Winters: Yes; I have already mentioned that.

The Chairman: It has been referred to. It has as one of its purposes greater rationalization and specialization of the Canadian machinery industry.

Mr. Saltsman: It still does not answer the question about scale and product-run, because these studies, if I may refer to them again, indicate that there are almost as many manufacturers in certain lines of products in Canada as there are in the United States, for a market of one-tenth, or one-eleventh the size. You are not in a position to say that you are prepared to take some specific measures to encourage this rationalization in some direct way.

Mr. Winters: No. I think you have to leave a lot of that to private initiative. We can in government open the doors to greater export markets and exhort them to do so, as we have done. We have written to every exporter and potential exporter in the country and have told them the door is now open because of the Kennedy Round; that the facility is available, through the government, to get into export markets. I think this is helping. We are encouraging them to make arrangements with their parent companies to specialize in the kind of products that they can perhaps make here and produce for the whole North American market; and some of that is working out. There is rationalization within the framework of companies, and this is helping. We intend to keep at this, aided by some of these measures which we have taken such as the machinery program which will decrease the cost of production, and assistance adjustment which helps them move from one product to another.

• 1610

Mr. Saltsman: Thank you.

The Chairman: Now I think we are ready to begin our second round of questioning, Mr. Hees.

Mr. Hees: Yesterday the Minister of Finance assured us that if the United States imposed any special border taxes against our goods we would be willing, on the same day, to impose equivalent border taxes against American goods coming into Canada. Are we prepared to do the same thing with regard to import quotas, which have been much talked about in the American Congress, if they are imposed against any of our goods?

Mr. Winters: Well, Mr. Hees, we will take what measures are necessary to protect the competitive position of our trade and economy. We do not know yet what they might

have to be because we do not know what they are going to do.

Mr. Hees: Well, we do not know what they are going to do but there has been quite an indication that there might easily be the imposition of import quotas. The Minister of Finance was very explicit yesterday and said that if they impeded our trade with special border taxes then we would immediately—not the day after or two weeks after, but the same day—impose the same thing. Now this is exactly the same situation with regard to import quotas. As the Minister knows, you can be impeded just as much by import quotas as you can by border taxes.

Mr. Winters: I am not saying we would not, Mr. Hees, I am not saying we will take measure for measure; I am simply saying that we will do what is necessary to protect the competitive position of Canadian industry.

Mr. Hees: I am wondering why the Minister of Finance was so specific on one type of impediment to Canadian trade when the government is not willing to be equally explicit with regard to an equally damaging form of impediment to our trade?

Mr. Winters: I have read his statement which I thought was very good.

Mr. Hees: Well that is exactly what he said yesterday here before this Committee.

Mr. Winters: I do not think Mr. Sharp said we will take precisely the same kind of action they have taken as counter action here in Canada.

Mr. Hees: That was the message that came across. I was here yesterday afternoon in this Committee, Mr. Minister.

An hon. Member: Effective the same day, he said.

Mr. Hees: He was so specific that he said “we will do it the same day”.

Mr. Winters: I agree with doing it the same day and I agree with what he said, but all I am saying at this particular moment is that I will not say that we are going to take measure for measure. What I am saying is that in the totality we will take the equivalent kind of action that is necessary to protect our Canadian economy.

Mr. Hees: The reason I would like to see the Canadian government make a statement of this kind with regard to import quotas is

that I am convinced from my experience in dealing with the government of the United States that this is the only kind of talk they understand, and I will give you an example. When we were working out the national oil policy the very large and important oil lobby in the United States—which I think the Minister would agree is the largest, best financed and the most powerful lobby in the United States—brought pressure to bear on the government not to allow Canada its series of increases in exports of oil year by year which we wanted and felt we were entitled to have.

• 1615

When the negotiations started there was a very great reluctance on the part of the United States government to grant us what we had asked for and I simply said to the Minister: “Well, now, we have a trade imbalance with you of some \$600 million”. Today it is something of twice that order, I believe. It is over \$1 billion. So the argument holds twice as much water today. I said, “You must agree that the country cannot allow itself to go on suffering under a trade imbalance of this size indefinitely”. He agreed that no, they should not.

I asked if he would not agree that it was better to allow us to balance off our trade in a positive way rather than in a negative way, by increasing our exports. He agreed to that. I pointed out that we had a commodity which they imported in large quantities and we had a great surplus of oil; that we felt we should be allowed greatly to increase our exports to them and therefore try to balance up our balance of trade, and I said if we were not allowed to do that then we would have to examine certain positive and negative methods of balancing up our trade.

The reason I tell this story is that immediately he got the picture and the deal was put through within a very few minutes, and I suggest this in the friendliest way to the Minister as simply a way to make sure that we do not run into the kind of difficulties that I think we are liable to run into. I think we are going to have Congress, in an election year, force through import quotas and that is going to be very, very difficult for Canadian industry.

Mr. Winters: I certainly accept that in the friendly terms in which it is given.

Mr. Hees: It is, and I suggest that we come out equally...

Mr. Winters: We are always faced with the same problem but there are two aspects to this. One is quotas and the President has given us the assurance that he will not agree to the passage of any of the quota bills being considered in the United States. The second problem is this border tax and here Mr. Sharp gave you assurance yesterday that we are going to protect ourselves on the border tax.

Mr. Hees: I would like to see us equally strong on the quotas and then I would be happy, and I think all Canadian industry would feel a great deal of relief.

Mr. Winters: Well, when the President has given assurance against the passage of these quota bills there is no need for me to give you assurance that we are going to have to do anything.

Mr. Hees: Mr. Minister, you know perfectly well and I know perfectly well that a two-thirds majority Congress can override any presidential veto.

Mr. Winters: It has not been done yet.

Mr. Hees: Well, it could be.

Mr. Winters: We will see, but I give you the assurance that we are going to protect ourselves.

Mr. Hees: I can tell you that if there are any quotas imposed you are going to hear from me in Parliament.

The Chairman: Are there any other members who wish to address questions to the Minister at this stage? Mr. Lambert?

Mr. Lambert: I do not know whether the Minister is in a position to comment on this; he may feel that it is the responsibility of his colleague, the Minister of Energy, Mines and Resources. This concerns the impasse that exists between Canada and the United States vis-à-vis the expanded export of natural gas on the West Coast where the United States Power Commission has taken a certain stand with regard to further quantities of gas going into the United States.

Are you involved in this situation?

Mr. Winters: Those things are determined interdepartmentally and we are party to the consultations but the matter is one for the National Energy Board.

Mr. Lambert: Yes, but the National Energy Board has denied that the United States Power Commission has the right to set the price for Canadian gas within Canada as well. What has the Canadian government done outside of, shall we say, the discussions between the National Energy Board and their counterparts in the United States? Have there been interministerial discussions?

Mr. Winters: I am unable to answer that. As you know, I was away when that decision was handed down.

Mr. Lambert: There are now suggestions that the United States Power Commission has directed the people with whom we are dealing to find their gas elsewhere. The Minister is well aware of the importance of this expanding gas market to the three Western provinces and if we in any way accept the principle that the United States Power Commission can dictate the prices for which gas will be sold in Canada to Canadian consumers, then we are setting quite a precedent.

Mr. Winters: I agree.

Mr. Lambert: But is it the Minister's intention to take appropriate steps with his colleagues vis-à-vis the United States authorities?

Mr. Winters: I am going to take appropriate steps to get up to date on it and look into it.

• 1620

The Chairman: The Assistant Deputy Minister of the Department is following our hearings in the room now and I am sure he is taking note of your question and I will be consulting with him later in the afternoon to see about some further reply to your question if that would seem in order.

Mr. Lambert: Thank you.

The Chairman: Do we have further questions of the Minister at this time? If not, then I think we can thank the Minister for his attendance and his statement and excuse him. Then we can return to our agenda as discussed yesterday morning. Thank you very much, Mr. Winters.

I think it would be in order for me as the Chairman of this Committee to express a non-partisan word of thanks to the Minister for his co-operation with us over the past several years. I think our terms of reference have

been such that we worked rather closely with the Minister and his officials and in view of his most recent announcement I think it would be in order for me, perhaps, to take it upon myself to say on behalf of the Committee a word of thanks for the co-operation we have had from him. Even though obviously there have been differences of opinion with respect to policies and outlook, certainly we have attempted to work together in the interests of the country and, of course, the population at large.

Mr. Winters: Thank you very much. I cannot imagine what gives rise to the statement about differences of policy and outlook. Thank you, very much.

The Chairman: I am not talking necessarily about differences between the Minister and myself.

Now, perhaps we can invite Mr. Wright, Industrial Policy Adviser to come forward with his colleagues and make his presentation to us on the Adjustment Assistance Program.

It is my suggestion, gentlemen, that after we have concluded with Mr. Wright we will be in a position to hear from Mr. Rod Grey on the progress being made with respect to the implementation of the anti-dumping code. Certainly it is up to the Committee. I think in all fairness I should agree that the general discussion when we decided to meet this week supplemented by the notice sent out would give rise to the inference we were not going to meet beyond Thursday. My only thought yesterday was that if a substantial portion of the Committee was interested in meeting Friday morning then we could do so. But if this would run counter to commitments already entered into by the Committee then certainly we should agree, after we terminate our session tomorrow afternoon, to adjourn until next Tuesday morning. Perhaps while Mr. Wright is getting himself situated we might have an exchange of views on this. Mr. Clermont?

Mr. Clermont: When is it your intention to call the representative of the Trade and Commerce Department before this Committee? Would it be tomorrow?

The Chairman: Yes, that is right.

Mr. Clermont: I thought they were going on after. I had a special question, but will they be here tomorrow?

The Chairman: It is my understanding that Mr. Schwarzmenn will be here together with

Dr. Annis. Dr. Annis at the moment unfortunately is indisposed with a touch of flu, but it was my hope that Dr. Annis, together with Mr. Schwarzmenn, would work with us in a detailed study of the tariff changes. After we had heard we would complete our consideration of specific related programs.

Mr. Clermont: Thank you.

The Chairman: Mr. Wright, if you please?

Mr. H. H. Wright (Industrial Policy Adviser, Department of Industry): Thank you, Mr. Chairman.

The basic considerations underlying the formulation of an adjustment assistance program related to the Kennedy Round were set out in the announcement made by the Prime Minister, of course, on December 27. Members of the Committee have, I understand, been provided with copies of the text of this announcement. In addition, the Minister of Finance dealt with numerous aspects of the program yesterday before this Committee.

• 1625

At present, Mr. Chairman, many of the details of the program have still to be settled. Discussions are in progress with representatives of the chartered banks concerning the system for insuring loans made by private lenders under the program. These discussions will be extended to other appropriate lenders who may be interested. There are, therefore, a number of questions about the program that have yet to be resolved. Subject to this limitation, and it is a real one, if the Committee wishes I will try to outline various aspects of the program as now envisaged, including the types of assistance that will be made available, eligibility requirements, provisions regarding the dislocation of employees and administrative arrangements.

As the Minister of Finance indicated in his statement to the Committee yesterday, there are three principal features to this Program. They can be summarized as follows:

First, government insurance of a major share of the risk of loss on industrial adjustment assistance loans made by private lenders; second, direct government loans in exceptional circumstances to firms seriously injured or threatened with serious injury as a result of reductions in the Canadian tariff and who are unable to obtain insured adjustment loans; and third, technical assistance in the preparation of adjustment proposals including

a cost-sharing arrangement between the government and eligible firms to cover the cost of private consulting services.

Financial assistance under the Program, either in the form of government insurance of loans made by private lenders or by way of direct loans, will only be made available in cases where adequate financing cannot be obtained from other sources on reasonable terms and conditions.

The Program will be administered by a Board to be established under section 15 of the Department of Industry Act. The Board will have an outside Chairman and consideration will also probably be given to including other outside members in addition to senior public officials. The services of the Department of Industry and its various branches will be made fully available to the Board and to eligible firms seeking assistance under the Program.

In operating the Program the fullest possible use will be made of the experience gained from the Auto Adjustment Assistance Program.

It is anticipated that the most important feature of the program will be the insured adjustment loans. While details are still being worked out with the banks, it is contemplated that the private lenders will bear a share of any losses incurred on these insured loans. In addition, the lenders will be charged a fee for insurance. It is envisaged that the fees collected will be sufficient, over a period of time, to cover claims paid on losses. The lenders in agreement with the borrowers will set the terms of these loans subject, of course, to competitive forces in the financial markets.

Under the Program there are two ways in which a manufacturer can qualify for a government insured adjustment loan. A firm must either

(a) establish that it has been seriously injured or is threatened with serious injury as a result of the Kennedy Round tariff reductions made by Canada

(b) establish that it has significant export opportunities arising out of the Kennedy Round agreements.

In addition, under either of these alternatives, the following tests must also be met

(a) a firm must present a comprehensive plan involving a restructuring of its operations in order to improve its competitive position under post-Kennedy

Round commercial conditions. For this purpose restructuring includes a significant change in the firm's operations with respect to production or markets served involving, in addition to the improvement or acquisition of physical assets, a significant adjustment in methods of production and/or management procedures related to cost or quality control, financial planning or marketing

(d) its comprehensive plan must be judged to be sound by the Adjustment Assistance Board

(e) it must be clearly established that the required financing cannot be obtained on reasonable terms from other sources.

• 1630

The government also intends to make direct loans available on a relatively short term basis. Loans up to a total of \$10 million for the first year of the program are designed to assist firms that are seriously injured or threatened with serious injury as a result of reductions in the Canadian tariffs and that are unable to qualify for an insured adjustment loan either because they face exceptional problems of adjustment or because they require interim assistance while a longer run solution to their problems is being sought.

It is not expected that many firms will require direct loans as a result of the Canadian tariff cuts. Consequently it is believed that only limited use will be made of this feature of the program. A firm that receives a direct loan will be required to seek a viable solution to its problems in co-operation with the Board.

Turning now, Mr. Chairman, to the provision in the program for technical assistance. It is recognized that many of the firms who will have to make adjustments in the post-Kennedy Round environment, either to take advantage of new export opportunities or to strengthen their position in the domestic market, may be small or medium-sized companies who may require assistance in the preparation of sound adjustment plans. For these firms, technical help in identifying needs and proposing solutions in such fields as financial planning and budgeting, production layout and scheduling, quality and cost control, systems design, inventory control, marketing programs and in-plant training, may be required in the preparation of a satisfactory adjustment proposal. Under the Program

applicant firms will be assisted in finding competent technical and professional advice in the private sector. It is proposed that the Government share the cost of such consulting services with the firm to the extent considered appropriate in each case, but not exceeding 50%. This assistance will, of course, only be made available to firms who meet the general eligibility requirements for financial assistance under the Program.

Technical assistance, like insured or direct loans, will, of course, have to be approved by the Board.

As was indicated in the Prime Minister's statement, it will be a condition of a company receiving either an insured loan or a direct loan that it give appropriate notice to its workers and to the government of any lay-offs that may result during the adjustment process. This requirement will apply if the total lay-off during the reorganization involves twenty or more workers and is for two months or longer. The minimum notice period will be three months.

The notice period will give time for the Manpower and Immigration Department and provincial authorities to arrange for re-training where needed, or for the Manpower Department fully to explore opportunities for temporary or permanent employment as appropriate.

That, very briefly, is a general outline of the Adjustment Assistance Program as it is now envisaged. In conclusion the Committee might be interested in a brief indication of the administrative procedures it is intended to follow in regard to insured loans.

- As a first step, a manufacturer seeking adjustment assistance under the program, will, in consultation with the Department of Industry, prepare a preliminary application in order to demonstrate that it is eligible for assistance under the Program.
- Second, the firm will develop a detailed proposal in consultation with the Department of Industry. In the event that outside consulting services are required for the preparation of a sound proposal, an application for technical assistance will be made to the Board.
- Third, the detailed application for adjustment assistance will be submitted to the Board for approval. If in the Board's judgement the proposal is commercially

viable, and the Board is satisfied that the required financing is not obtainable on reasonable terms without government insurance, the Board will approve the application and issue to the firm a letter of intent to provide insurance coverage in respect of the approved proposal.

- Fourth, the applicant firm will then seek an approved lender to finance his needs with an insured loan.
- Fifth, the lender will apply to the Board for insurance on the loan.

Similarly, applicants for direct government loans will prepare a suitable application in consultation with the Department of Industry to the Board demonstrating their need and eligibility.

From this description of various aspects of the program it will be apparent that the Program is not intended to encompass a general scheme for financing the expansion of Canada's manufacturing and processing industries. First of all, the Program is related to the Kennedy Round agreements; second, it involves "last resort" financing; and third, it is confined to assisting firms engaged in restructuring their operations in order to improve their productivity and strengthen their competitive position.

Thank you, Mr. Chairman.

• 1635

The Chairman: Thank you, Mr. Wright. We are now open for questioning. Mr. Clermont?

Mr. Clermont: Mr. Chairman, the statement that was delivered to us speaks about loans. In a case where industry is seriously injured is there any question of thinking about any kind of a subsidy? I agree that in some cases a loan might be very important to reorganize the production, but in other cases it might not be enough to procure a loan.

I have an example to offer. I do not know if these two firms will be seriously injured, but this case deals with shoe board. The tariff will be cut in three steps from 20 per cent to 5 per cent, which represents a 75 per cent reduction. I think 75 per cent is a very steep reduction. However, on shoe board sold for the wet board machine, which is another use, the tariff was only reduced from 20 per cent to 15 per cent.

The Chairman: Do you wish to comment on Mr. Clermont's observation?

Mr. Wright: I think I can say that it is correct that as framed the program contains no provision for subsidization. As you know, it contains a direct loan fund as contrasted to the insurance provision. This direct loan fund has been set up for the purpose of making assistance available to those firms who are in a position of special hardship. Of course, the technical assistance side of the program in a sense contains an element of subsidy in that the government will pay for half the cost of technical assistance to assist companies to make plans to strengthen their competitive position and maintain a viable position in the new trading conditions.

Mr. Clermont: But which department will be responsible for that? If the same material is used in one place, the tariff will be reduced from 20 per cent to 15 per cent, but the same material if used in shoe production will be reduced in three steps from 20 per cent to 5 per cent, a 75 per cent reduction. It is the same material and I understand there are only two Canadian companies supplying that material on the domestic market. As I understand it, their sales to the united market last year were only \$75,000. I know you cannot reply, but this is the question I will ask of the representative of the Department of Commerce. Why in the world did our negotiator agree to a sweeping reduction of 75 per cent when, according to the information that is available to me, our last sales figures to the united market were only \$75,000?

Mr. Wright: We are aware, sir, of the situation to which you are referring.

Mr. Clermont: I know you are aware of it.

Mr. Wright: I very readily accept your comment that you will ask the departments concerned about the negotiations and about the effect of this tariff in this particular case, and they may have information which will throw some light on this matter, which I do not have, in the sense of the reductions that were made in this tariff in the Kennedy Round agreement.

• 1640

Mr. Monteith: Could I ask Mr. Clermont, in what market this \$75,000 sale was?

Mr. Clermont: The United States. I mentioned this figure to illustrate the steep reduction of 75 per cent in our sales to that market.

According to the information I have available the amount was only \$75,000; according to other sources, the sales were \$475,000.

The Chairman: We will have people with us tomorrow who are in an even better position to deal with the point you have raised; a point which I think is very significant.

[Translation]

Mr. Clermont: Another question, Mr. Chairman. With regard to the labour force which might be laid off for a certain period of time during the reorganization of certain firms. I think that the program here does not take into account maybe it is hypothetical the fact that some industries may have to close down. In such cases, will the employees also receive the three-months' notice? I know that they will be able to benefit from the other advantages, retraining and vocational training, and so on, but will they also receive the three-month's notice? In the Prime Minister's release only secondary industries which are to reorganize as a result of the Kennedy Round negotiations are mentioned. If it were to happen, I hope it does not, but we should at least consider the possibility, that a firm be compelled to close down, again I hope that such a thing will not happen but if it does what protection will these employees get? Will they be able to benefit from the same protection, that is, the three-months' notice, if the staff is over 20.

[English]

The Chairman: Are you in a position to comment?

Mr. Grey: I think possibly that the Department of Manpower and Immigration representative, who I understand will be appearing before the Committee later, will be in a position to comment more fully than I can. But I think it can be made clear, sir, that as Mr. Sharp said, it is not expected that because of the Kennedy Round tariff cuts, phased as they are, and in view of the structure of the concessions made by Canada, there will be, in fact, many cases of people closing their plants as a result of reductions made in the Canadian tariff. Consequently, this program has been framed to assist people to restructure their operations in order to become more competitive. This particular program has not been framed with other purposes in mind.

[Translation]

Mr. Clermont: Mr. Chairman, the reason I was putting this question to the witness at the present time, the one testifying before the Committee, is that his department is responsible for the program for secondary industries which are to reorganize as a result of the Kennedy Round. I cannot ask the question of the representatives of the Department of Manpower and Immigration since they are not responsible for the Adjustment Assistance Program. According to the release, your department is responsible for this.

• 1645

[English]

Mr. Wright: Perhaps I should add that if somebody who believes he is going to suffer and can show he is going to suffer real hardship, comes before the Adjustment Assistance Board, as we envisaged the program, it will be the objective of the Board to help him shift his production into other lines. In other words, he will be assisted in getting out of a line which is going to become more difficult to maintain as a result of the new trading conditions and switch into other production which will be sustainable.

Mr. Clermont: But this help will be through loans?

Mr. Wright: Yes, sir.

Mr. Clermont: No subsidy?

Mr. Wright: That is right, sir.

Mr. Clermont: Yes, but if a firm is so badly hurt will his loan be enough to compensate for his transition or his loss of going into a completely new production?

Mr. Wright: I think this would depend on an analysis of the firm's position, what production he was interested in switching over to: what the market for that production was and what the profit margins on it were. In other words, an analysis of the viability of the proposal that was put up to the Board.

Mr. Clermont: Fine, thank you. I am not satisfied, Mr. Chairman.

[Translation]

The Chairman: I contacted the representatives of the Department of Manpower and Immigration and they are getting ready to

give us an account on responsibilities in the field of manpower change, as a result of the Kennedy Round. It is true that the transformation program as a whole comes under the Department of Industry but it seems possible that it will come under Manpower. According to what I understand, this will come under the Department of Manpower and Immigration. Therefore, I intend suggesting to the Committee that we might perhaps hear representations from this Department in so far as changes in labour forces are concerned, either tomorrow morning or next week. I think that Mr. Wright is well informed in the field of assistance to industry and firms.

[English]

I think that is correct: is that not so, Mr. Wright?

Mr. Wright: That is correct.

The Chairman: Also, of course, it is correct that we must keep in mind that as an official all Mr. Wright is in a position to do is give details of the general policy and the programs arising out of it which have been announced by the Minister of Industry and the government in general. As far as suggestions or ideas for changes in existing, proposed, or new programs are concerned, I do not think he is in a position to do more than assure us that he will bring them to the attention of the Minister.

Now I have to recognize Mr. More, then Mr. Macdonald and you, Mr. Saltsman.

Mr. More (Regina City): I have two questions, Mr. Chairman, I wish to direct to Mr. Wright. You speak of insurance for which a premium will be paid. What is the premium going to be?

Mr. Wright: The premium, sir, will be a certain percentage rate on the portion of the loan that is covered by the government insurance.

Mr. More (Regina City): What portion of the loan do you propose to cover? Whatever the lender asks?

Mr. Wright: The portion of the loan that will be covered by insurance, sir, will be agreed, as the program is envisaged, between the borrower and the lender and will be subject to the approval of the board before it makes this insurance available.

Mr. More (Regina City): You have not determined what the percentage rate will be?

Mr. Wright: At this time, sir, these matters are under discussion with the banks and further meetings with the banks are going to take place, we hope towards the end of this week.

Mr. More (Regina City): You also spoke of cases of lender of last resort direct loans. Have you determined what rate will be established for those loans?

Mr. Wright: The thinking at this time is that the rate on direct loans will be in line with market rates for similar loans, of similar duration, and for similar purposes.

Mr. More (Regina City): That is all. Thank you.

• 1650

Mr. Macdonald (Rosedale): In Mr. Clermont's line of questioning, I draw from the conclusion that a firm cannot expect a subsidy to continue in the same old way; it is going to have to shift its operations.

Mr. Wright: That is correct, sir.

Mr. Macdonald (Rosedale): You appear to say to them that they should shift into another line of business. It is equally consistent they could remain in the same line of business if, by the loan, they could make themselves competitive in equipment.

Mr. Wright: That is exactly right.

Mr. Macdonald (Rosedale): What, in your opinion, would constitute evidence of "threatened" injury?

Mr. Wright: I think this is a matter that really would have to be considered probably on a case-by-case basis by the Board.

Mr. Macdonald (Rosedale): It is not enough to say that they have been just making ends meet at the current tariff level; if you drop it 15 per cent they are going to be put out of business. They have to support that contention with TD 11's, do they? Does it have to be recorded experience?

Mr. Wright: I think there would have to be evidence that was satisfactory to the Board that there was a threat of injury, and the Board would evaluate this evidence and, of

course, the Board would also want to know that the required financing to improve the company situation was not available from other sources.

Mr. Macdonald (Rosedale): Thank you.

Mr. Irvine: Mr. Chairman, I have a supplementary to the question Mr. Macdonald asked, and one that was mentioned by Mr. Clermont. Just for clarification, if this firm, which was in difficulty, did change to a new line of manufacture, is there machinery set up and available to provide a subsidy under certain circumstances?

Mr. Wright: Under the financial arrangements contemplated in this program?

Mr. Irvine: Yes.

Mr. Wright: No, no. I wonder if I might just mention if it would be of interest to the Committee, the kind of representations we have received from the business community on the subsidy question?

The Chairman: If you would care to comment, yes.

Mr. Wright: Yes. Our Minister when making a speech back in May to the Canadian Association of Manufacturers invited comments and suggestions, and the association itself went into this matter I think rather carefully and thoroughly; they examined it through their committee system. They came up with some points which they felt should be included in any consideration and formulation of this sort of program. If it would be of interest to the Committee, I could just read those points out, because I think they bear on some of the questions that have been raised here.

The Chairman: I think we might hear these points and then we might adjourn. We obviously will not complete the exchange of questions with Mr. Wright this evening.

Mr. Wright: All right. I will just, then, read that with your approval, Mr. Chairman. In their letter to Mr. Drury of September 19, they said:

The Association's concept of adjustment assistance is predicated on the following principles:

1. The underlying philosophy of the assistance program should be to help manufacturers take advantage of new

opportunities in foreign markets as well as to adjust to changing domestic conditions brought about by changes in government trade policies.

2. A revamped Adjustment Assistance Board comprised of representatives from both industry and government should be set up to administer the assistance program.

3. Lending activities under the program should be formulated on a commercial basis as far as possible. Specifically:

(a) the Board should be recognized as the lender of last resort;

(b) the appraisal of loan applications should be similar to the procedure followed by private lending institutions and the terms and conditions of loans should be in line with those prevailing in financial markets, allowing for differences in risks;

(c) the lending program should not include elements of subsidy, nor should it direct the restructuring of Canadian industry;

(d) the Board should give careful study to the possibility of relying essentially on guarantees of loans from private sources rather than on direct lending.

• 1655

Then they went on to say:

4. The program should also provide for assistance to manufacturers to improve their managerial, technical and marketing operations.

The fifth point was:

5. All types of assistance for workers displaced as a result of government trade policies should be handled as part of the country's general manpower policies and programs.

And the last point they made was that:

6. The question of special assistance to manufacturers who are forced out of business as a direct result of changes in government policies should be considered outside the framework of the adjustment assistance program.

Now, this was from the Canadian Manufacturers Association which, of course, has about 6,000 members in Canada and it was the considered view they put forward to the government.

Similarly, the Canadian Chamber of Commerce I might just read one pertinent paragraph out of this so I will not take up too much of the Committee's time said this:

In regard to any assistance that may be given the companies, in which labour also has a great stake, we would not recommend that it take the form of any subsidies, capital or otherwise. We suggest that the policies of any assistance program be formulated around the proposition that it not replace the resources of the financial markets. For example, if the commercial feasibility of a proposed plant reorganization is thoroughly substantiated, there should be facilities for government guaranteed loans negotiated through ordinary commercial channels.

The Chairman: Well, I think we can cogitate on these comments overnight.

[Translation]

Mr. Comtois: Mr. Chairman, I have a question to ask. If a company which is affected by the Kennedy Round negotiations were to decide to move its plant to a designated area could this same firm also take advantage of the designated area subsidies as well as the loans?

[English]

The Chairman: Perhaps you might want to consider that one overnight yourself, Mr. Wright.

Mr. Wright: I will check on that, yes. Subject to correction, I would think yes.

Mr. Irvine: I have a supplementary, Mr. Chairman. As Mr. Wright mentioned, those firms which are forced out of business as a result of the Kennedy Round are considered—did I get this right—to be outside the framework of the adjustments assistance program?

Mr. Wright: The last thing I quoted, sir, was from the Canadian Manufacturers' Association recommendations and they recommended that the question of special assistance to manufacturers who are forced out of business as a direct result of changes in government policy should be considered outside the framework of the adjustment assistance program. Earlier on, when I was speaking in response to a question, I simply affirmed that the policy as now framed did not provide for subsidies to people who are forced out of business.

Mr. Irvine: Then you concur in the statement of the Canadian Manufacturers' Association that they are outside the boundaries of this program?

The Chairman: I do not think you can ask Mr. Wright if he concurs personally with the statements he has quoted from. We have before us a statement of the details of the adjustment assistance program, and he has quoted the views of these commercial bodies for the information of the Committee. We can draw our own conclusions as to whether or

not what is put forward is in accord with the views of these supposedly representative bodies of the business community. I presume also that it might be the view of the government if this program works, that firms will not be forced out of business, although that may be considered debatable. Well in any event, I think that we should adjourn our meeting until 10.30 tomorrow morning, when we will conclude our exchange of questions with Mr. Wright, and continue with our agenda.

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1968

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 15

THURSDAY, JANUARY 18, 1968

RESPECTING
Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

Mr. John Munro, Parliamentary Secretary to the Minister of Manpower and Immigration. *From the Department of Manpower and Immigration:* Mr. Duncan Campbell, Programme Development Services; *From the Department of Industry:* Mr. Hume H. Wright, Industrial Policy Adviser.

From the Department of Finance: Messrs. R. Y. Grey, Assistant Deputy Minister; C. A. Annis, Director of Tariffs; *From the Department of Trade and Commerce:* Messrs. M. Schwarzmann, Assistant Deputy Minister (Trade Policy); A. R. A. Gherson, Chief, United States Division, Office of Trade Relations.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,
Beaulieu,
Cameron (*Nanaimo-
Cowichan-The Islands*),
Cantin,
Comtois,
Flemming,
Gilbert,

Hees,
Irvine,
Laflamme,
Lambert,
Latulippe,
Lind,
Macdonald (*Rosedale*),
Mackasey,

McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Noël,
Thompson,
Tremblay (*Matapédia-
Matane*),
Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

Acting Assistant Clerks:

Fernand Despatie (Printing),

Michael A. Measures (Documents).

CORRIGENDA

Issue No. 13, Tuesday, January 16, 1968

Page 247, Lines 24 and 25, 2nd column, should read:

"Mr. Sharp: No one can bind the Parliament of Canada".

Page 264,—The remarks attributed to the Vice-Chairman should indicate that they were made by the Chairman.

Page 277, Lines 39 and 40, 2nd column.—The sentence attributed to Mr. McKennirey and reading

"I think in practice it is going to be very, very time consuming and unfair to the Cabinet".

was made by Mr. Hees.

Issue No. 14, Wednesday, January 17, 1968

Pages 298 and 299,—All references to "Siemens Canada Limited" should read "CEMA" (Canadian Electrical Manufacturers Association).

Page 314,—Sentence beginning on line 37, first column, should read:

"The Economic Council establishes this gap as being 33 per cent or more."

—Phrase beginning on line 42, first column, should read:

"I also think the gap is responsible, in certain sectors, for the big difference in wages between Canada and the United States."

MINUTES OF PROCEEDINGS

THURSDAY, January 18, 1968.

(18)

The Standing Committee on Finance, Trade and Economic Affairs met at 10.45 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cantin, Clermont, Gilbert, Gray, Hees, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*), Wahn (12).

In attendance: Messrs. John Munro, Parliamentary Secretary to the Minister of Manpower and Immigration; Duncan Campbell, Programme Development Services, Department of Manpower and Immigration. Messrs. Hume H. Wright, Industrial Policy Adviser and G. H. Dewhirst, Office of the Industrial Policy Adviser, Department of Industry.

On motion of Mr. Hees, seconded by Mr. More (*Regina City*),

Resolved,—That this Committee recommend to the House that it be authorized to sit while the House is sitting.

The Committee agreed to certain corrections in Issues No. 13 and No. 14. (See *corrigenda*.)

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff resolution.

Messrs. Munro and Campbell were called and questioned on Manpower aspects of the adjustment assistance programme. The questioning having been completed, the Chairman thanked the witnesses who were allowed to retire.

Mr. Wright was recalled and was further questioned on the adjustment assistance programme. Questioning having been completed, the Chairman thanked the witness who then withdrew.

The Committee agreed to print as appendices answers provided privately by officials to members who had raised questions in Committee to which immediate answers could not be provided. (See *Appendix G*.)

It was also agreed that the Chairman, Vice-Chairman and Clerk would draw up a programme of meetings and witnesses for next week.

At 12.25 p.m., the Committee adjourned to 2.30 p.m. this day.

AFTERNOON SITTING

(19)

The Committee resumed at 2.43 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cantin, Clermont, Comtois, Gilbert, Gray, Hees, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*) (12).

Also present: Mr. Saltsman.

In attendance: Mr. R. Y. Grey, Assistant Deputy Minister, Department of Finance; Mr. A. R. A. Gherson, Chief, United States Division, Office of Trade Relations, Department of Trade and Commerce; Mr. M. Schwarzmenn, Assistant Deputy Minister (Trade Policy), Department of Trade and Commerce; Mr. C. A. Annis, Director of Tariffs, Department of Finance.

The Committee agreed to certain corrections in Issue No. 14 requested by Mr. Clermont. (*See Corrigenda*).

Messrs. Grey and Gherson were called. Mr. Grey made a statement on anti-dumping policies and he and Mr. Gherson were questioned. The questioning being concluded, the witnesses were allowed to withdraw.

Messrs. Schwarzmenn and Annis were recalled. Mr. Schwarzmenn made a brief statement and Dr. Annis tabled a prepared statement which it was agreed to include in today's Proceedings. Messrs. Schwarzmenn and Annis were questioned.

At 4.55 p.m. the Committee adjourned to 11.00 a.m., Tuesday, January 23, 1968, at which time Messrs. Annis and Schwarzmenn will again be the witnesses.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, January 18, 1968

• 1044

The Chairman: Gentlemen, I think we are in a position to begin our meeting. Before we resume consideration of our agenda I think we should get some procedural matters out of the way. First of all, there are some corrections to be made in our written record. It has been drawn to my attention by Mr. McKennirey that on page 277 a remark made by Mr. Hees has been attributed to Mr. McKennirey.

Mr. Hees: Is he objecting violently?

The Chairman: He is not objecting to you making it he is just objecting to having it attributed to himself since obviously it is not one which would be considered appropriate for an official to make. In the Minutes of Proceedings and Evidence of January 16, page 277 in the second column, it says:

But nevertheless the responsibility for remitting the duties still should rest with the Governor in Council.

At that point, Mr. McKennirey has informed us, his own remarks were concluded and the following sentence actually should be attributed to Mr. Hees, the sentence being:

I think in practice it is going to be very, very time consuming and unfair to the Cabinet.

Also, speaking on my own behalf, on page 264 there are some remarks attributed to the Vice-Chairman which were actually made by myself. There are two or three references to the Vice-Chairman which were actually made by myself. It is obvious that I made them rather than our Vice-Chairman, Mr. Clermont, because he is also noted as having made some comments under his own name on the same page. With the consent of the Committee, this will be noted in the proceedings for today and the record will be rectified.

• 1045

Mr. Lambert: Mr. Chairman, without wanting to hold out a brief for the Minister of

Finance, on page 247, the second column, in the middle of the page, there is a remark attributed to him which I do not think he ever made. One might be cynical but it says:

Mr. Sharp: No one can buy into the Parliament of Canada.

Much ink has been used about the efforts made in that regard. I do not think he used the word "buy" into the Parliament of Canada.

The Chairman: I certainly do not recall that.

Mr. Wahn: I think it must be "bind".

Mr. Lambert: I think that is what he meant, "No one can bind the Parliament of Canada."

The Chairman: Yes, I think I recall Mr. Sharp's statement.

It should be noted that our proceedings are recorded electronically and the typists have to try and reconstruct this from the tapes. This is not always easy.

Mr. Monteith: Some of these fellows do not use the best English.

Mr. More (Regina City): I notice there are several mistakes in the wording, Mr. Chairman. For instance there is one place where it says "compensation" instead of "competition" and things of that nature. I do not know how you could correct it all.

The Chairman: I think it is also interesting to note that for the first time we are having our proceedings printed on a daily basis. Unfortunately, this will not be able to continue once Parliament itself resumes, but I think that the fact that they are able to do this now begs the question as to why, even though we may not be able to get our proceedings on a daily basis with Parliament sitting, we should not be able to get them after a delay of only two or three days. If Canada can launch an Alouette satellite I am positive that methods could be worked out for us to get the verbatim

transcript of our proceedings after a delay of only two or three days.

Also, you will note that the House resumes next Monday and we do not have the authority, at the moment, to sit while the House is sitting. If we are going to complete our agenda without undue delay, particularly hearing from the outside witnesses, I would urge the Committee to approve a motion recommending to the House that we be granted authority to sit while the House is sitting. Would somebody be prepared to move such a motion?

Mr. Hees: I so move.

Mr. More (Regina City): I second the motion.

Motion agreed to.

The Chairman: I will ask the Clerk to prepare the motion and I will present it in due course.

When we adjourned last night we were hearing from Mr. Hume Wright, Industrial Policy Adviser, on the Adjustment Assistance Program. Several questions had arisen with respect to the manpower side of this program which I indicated to the Committee, in my opinion, could be better handled by departments more directly concerned with it. I indicated I was in touch with departments in this regard.

We have with us this morning Mr. John Munro, Parliamentary Secretary to the Minister of Manpower and the Acting Director of the Program Planning Branch, I believe the title is. Mr. Munro can correct this. We also have Mr. Campbell of the Department of Manpower. I have asked Mr. Wright to stand down for a few moments while we hear from Mr. Munro and Mr. Campbell. I also believe that later in the morning or later today we will be hearing from Mr. Mackasey who is a Member of our Committee. We will be hearing from him in his capacity as Parliamentary Secretary to the Minister of Labour with respect to the aspects of the program under the jurisdiction of that department.

Mr. Lambert: Mr. Chairman, I think this raises a point of procedure. I, for the life of me, cannot see how a Member of the Committee can come in and sit as a witness. I am not picking on any particular person. Based on the evidence that that witness will give, this Committee will then make certain recommendations and the hon. member will then be involved in determining whether that report

shall, first, have a certain form and, secondly, whether it shall be adopted or not. He must disenfranchise himself when we come to a vote dealing with sections or parts of the report in which he gave testimony. I cannot see how he can be witness and judge. This goes to the question of putting parliamentary secretaries on committees.

• 1050

The Chairman: Well, we have to give them something to do.

Mr. Lambert: I know it is a problem.

An hon. Member: It was your colleague who said that, John.

The Chairman: I said this in a facetious vein and it does not apply to the Parliamentary Secretaries in question who are most active.

Mr. Lambert: This does raise a question. I know that Parliamentary Secretaries...

Mr. Wahn: I think the remark should be withdrawn.

The Chairman: I withdraw it.

Mr. Lambert: Parliamentary Secretaries in the main have a good deal to contribute and they are usually among the more active people in the House and on committees but they have to make a choice. They can come to meetings as non-members of the committee and participate but they are non-voters.

The Chairman: I think your point is well taken. First, we should make clear that Mr. Munro at this point is not a member of the Committee. Second, with respect to Mr. Mackasey, he is on the Committee by order of the House as all of us are and I think the proper procedure to follow is the one you suggested, that he should not vote with respect to any portions of our deliberations linked with his own evidence.

If I am not mistaken, members of other committees may well have acted as witnesses in support of private bills or resolutions referred to them for study and I am not sure if an objection was raised on that point although I am not saying your point is not well taken.

Mr. Lambert: I have done that before this Committee but I have absolutely abstained from voting on the particular question and I raise this as something to be considered, Mr.

Chairman. It puts a Parliamentary Secretary in a difficult position. For instance, if we want to be specific, I think since Mr. MacDonald is not going to testify it is perfectly all right, but if you are a member of a committee then you should not be testifying before it.

The Chairman: To express my own view here, I think the appropriate procedure would be the one that you have alluded to; that is to say, if they do testify and since they sometimes cannot avoid the obligation on behalf of their departments and there is not an opportunity to change membership, then it is clear that they should not be voting on the particular subject matter relevant to their evidence. I certainly would take this position. I presume I would be supported by the Committee if there is any question on it.

I also have a message here that Mr. Macksey is not yet in a position to present a statement and he will be doing so as soon as... that point is reached.

Mr. Lambert:...he gets clearance, yes.

The Chairman: He is speaking on behalf of the Department I presume that with respect to the policies involved they would want to have a complete document, so we will invite Mr. Munro and Mr. Campbell to come forward.

Mr. Irvine: Mr. Chairman, may I interrupt for just a moment? I apologize to Mr. Munro also, but I was called away for a message at the time you were discussing errors that have been made in the written records. On Page 298, right under 1205, it is alleged that I said "Was any representation made by Siemens Canada Ltd?" This is rather flagrant and maybe even fragrant. I am glad they added an "s" to it. It was actually "CEMA". And then it appears again on the following page 299, nearly half way down the left-hand column; then it appears a third time just below that. I am sorry, but perhaps my false teeth may have caused that and it did not come through properly but I think those corrections should be made. I am not sure whether it appears again or not. I have not had a chance to read it thoroughly. CEMA means Canadian Electrical Manufacturers Association.

The Chairman: Siemens is a firm, I believe, based in Germany manufacturing pipe and electrical equipment.

Mr. Irvine: That is if you have an "s" on it.

Mr. More (Regina City): Radios.

The Chairman: Anyway, a very different group from the one that Mr. Irvine was referring to. This will be noted and now we will ask Mr. Munro and Mr. Campbell to make their presentations.

Mr. John C. Munro (Parliamentary Secretary to Minister of Manpower and Immigration): Mr. Chairman and Members of the Committee, Dr. Duncan Campbell is here. He is Acting Director of Planning and Evaluation Branch with the Department of Manpower and Immigration and he is here to give the specifics of what the Department's program is under the Adjustment Program and to answer questions with respect to those policies. If there are questions aside from the technicalities of the program I am prepared to take those questions and do the best I can with them, but I will turn it over to Mr. Campbell now.

• 1055

The Chairman: Mr. Campbell?

Dr. Duncan Campbell (Acting Director, Planning and Evaluation Branch, Department of Manpower and Immigration): Thank you Mr. Chairman. The reason for the Manpower aspects of the program fundamentally is to make sure that the measures of manpower adjustment assistance that we have in place can be fully integrated with the industrial adjustment so that whatever changes take place, take place as smoothly and rapidly as possible. The major Manpower measures are, of course, the ones of our regular counselling and placement services and retraining and, when necessary, mobility.

The three months' notice period fundamentally is intended to provide time for the application of these measures. It is very difficult, in fact, to get them under way on no notice at all and in many cases, for instance, courses have to be specifically arranged and so on and that is the basic reason for it. The Prime Minister's statement appears on page 5 of this press release.

The Chairman: This has been distributed.

Dr. Campbell: It outlines the essentials of the program in its broader aspects.

The Chairman: Gentlemen, do you have any questions to direct to Dr. Campbell and

Mr. Munro? I recognize Mr. Clermont, followed by Mr. Gilbert.

Mr. Clermont: Mr. Chairman, will the gentlemen be able to understand me in French?

The Chairman: I think he is connected to the facilities.

[Translation]

Mr. Clermont: Yesterday when Mr. Wright appeared before the Committee I pointed out that if one company unfortunately had to close down because of the Kennedy Round there was nothing in the communique or the declaration made by the Prime Minister which gave protection with regard to the three-month's notice to the employees.

I must add that there also seems to be no protection to the employees of companies which make the transition without obtaining a guaranteed loan or one directly from the government. No doubt, Mr. Chairman, some companies will be able to make this transition without a guaranteed loan or one from the government and in such cases it seems that the employee will not benefit from a three-months' notice. He will be able to take advantage of the other services given by the Manpower Department in regard to retraining, professional assistance and also unemployment insurance, but he will not be able to take advantage of a three-months' notice. I think that if we give this protection of a three-months' notice to the employees of companies who receive assistance according to the adjustment assistance program, other employees should also have the same advantages.

[English]

The Chairman: Mr. Campbell, are you in a position to comment?

Dr. Campbell: Yes. That statement of the situation is quite correct so far as the legalities of it go. The program does not provide, formally at least, for notice in those situations. The difficulty here in possible extensions of it is that it appears there is, in fact, no way to obtain that in most cases, aside from legislation which, in the federal situation, would have to be limited to industries within the federal jurisdiction.

Mr. Clermont: But could not the Manpower regulation or the Labour regulation be amended at least to protect those that come under the federal responsibility or jurisdiction?

• 1100

Mr. Munro: It could be.

The Chairman: I also presume that very few of the firms that might be affected by the Kennedy Round changes would be under federal labour jurisdiction, as these firms are mainly in the transportation and communication fields.

Mr. Clermont: At least, Mr. Chairman, can the Manpower Department and the Department of Labour get in touch with the firms concerned and arrange for some publicity, or something like that? Can they do some persuading?

Mr. Campbell: If I may, Mr. Chairman, I might add that at the moment we have an extensive program which is intended to ensure, so far as that is possible, that we have the most up-to-date information on what is going on within firms. This is done partly in an attempt to determine what firms might be closing, as they are doing all the time, and also partly to determine where expansions are going to take place so that through training we can prepare new workers for those expansions. We have a Manpower Information and Analysis Branch and this is one of its major functions.

The expectation on the Kennedy Round, as I think previous witnesses have made clear, is that there will not be any substantial disturbance. I suppose it is possible that a few firms might close as a result of it, but the general expectation is a substantial expansion in employment. What we have been really thinking more of here is the sort of reorganization that a company goes through where the situation is that workers in some cases may have to be temporarily laid off while new machinery is being installed and production restructured. In many cases it then becomes a matter of training them so that they can operate the new machinery later on.

Mr. Clermont: Mr. Chairman, these are the end of my remarks for the time being. It may be that the Department of Manpower and the Department of Labour can issue or give us some guidelines, as was done in other sectors of the Canadian government.

The Chairman: I think that is a point they should take under advisement.

Mr. More (Regina City): A supplementary question, Mr. Chairman. My understanding is that only companies that seek loans, and get

guarantees on the loans, are required to give three months' notice.

Mr. Campbell: That is correct.

Mr. More (Regina City): It was suggested—and you repeated it—that you expect very few lay-offs in industry, but we had evidence yesterday from the heavy electrical industry in the form of newspaper comments that in the last quarter, because of Kennedy Round adjustments, and so forth, they expect they may be laying off a third or more. In fact, one company suggested they might have to close a portion of their plant which deals with particular manufacture. These are companies that conceivably would not be asking for guaranteed loans. In that case the worker does not have this protection at all.

Mr. Campbell: That is correct.

Mr. More (Regina City): And nothing is being considered about it.

Mr. Campbell: He does have the benefit of the other programs, and in that sort of situation—which is precisely the example you have mentioned—if this comes to fruition what we have in effect there is substantial advance notice. Our people in the field, through the Department of Manpower, will be getting in touch with those firms to try and determine what exactly might be coming out of it and to try to make advance plans, even though there is no formal requirement of advance notice for them.

Mr. More (Regina City): If that program is considered sufficient, why do we have this program? If the one is considered sufficient, then why is there differentiation? If it is not considered sufficient, why is something not being done to apply it to all workers who are displaced through the Kennedy Round adjustments?

The Chairman: Mr. Munro?

Mr. Munro: I think the answer to that, Mr. Chairman, is that in this case we do not have to have direct legislation in order to qualify notice—we do not have the jurisdiction to do it in any event—but when we are making loans of this type we can tie the notice restriction in as one of the conditions of the loan. There is nothing irregular about that. The federal government simply does not have the legislative competence or jurisdiction to require all these firms, such as the heavy duty electrical firms you are talking about, to give notice.

• 1105

Mr. More (Regina City): You have no jurisdiction in the other cases either, except that you make it...

Mr. Munro: Indirect.

Mr. More (Regina City): Indirect.

Mr. Munro: That is right.

Mr. Lambert: I have a supplementary observation, if I may. I think you would also agree that you would be establishing a very serious precedent in the sense that by legislative action you are modifying collective agreements. This is not under the loan program but under the general suggestion with regard to anybody who may be laid off as a result of the Kennedy Round agreement, that such-and-such notice shall be given before lay-off, and this would definitely be a modification of many collective agreements. I do not think you can do that.

Mr. Munro: I am not prepared to disagree on that, Mr. Lambert, except to say that most legislation that requires notice, or other conditions of employment that certainly some of the provinces have implemented, I believe indicates that it is minimal, and where collective agreements provide more ample provision for these, the conditions of the collective agreement will prevail.

The Chairman: I think we should permit Mr. Gilbert to have the floor, unless he wishes to yield.

Mr. John Gilbert (Broadview): Mr. Chairman, in substance my question was the same as Mr. More's. Under the auto pact agreement, Mr. Campbell, they had the TAB program, which was a transitional assistance benefit to workers. Why do we not have it with regard to the Kennedy Round?

The Chairman: In fairness to Mr. Campbell, I would suggest that is a policy question which should not be asked of an official.

Mr. Gilbert: Perhaps I could ask that question of Mr. Munro.

Mr. Munro: I believe that the Department of Labour officials and Mr. Mackasey will be here. As you know, TAB falls within the jurisdiction of the Department of Labour and they are prepared to go into that question when they come before the Committee.

The Chairman: That is why I invited Mr. Mackasey and his Department to be prepared to appear before us.

• 1110

Mr. Gilbert: I would like to direct another question with regard to the arrangements made by the Department of Manpower and the provincial authorities with regard to retraining where needed. What arrangements have been made?

Mr. Campbell: We have made arrangements with all ten provinces. That is, we have general contracts for training with those provinces. Those contracts are what I can only describe as flexible. There is a provision within them for what I might call a standard amount of training and there is an additional provision whereby—to the degree that it is considered desirable on the part of both parties—we can supplement the basic amount of training that is being given. So, the framework is there and it then becomes basically a matter of administrative arrangements in specific instances. When we receive notice that workers will be laid off, and it appears that a certain number of them may require training, it would then be a matter of the Manpower region or the local office getting in touch with the provincial government to arrange for the specific classes in whatever is needed.

However, much of the training in this area, to the extent that it is required, I expect would probably be carried out within industry. In many cases the better and more efficient way to do it, if it is a change within a firm and when we are in effect retraining the workers of that firm for new jobs within it, would probably be for it to be given by the company in co-operation with the provincial government.

Mr. Gilbert: I think that is all for the moment, Mr. Chairman.

The Chairman: Do we have any further questions at this stage? Mr. Irvine.

Mr. Jack A. Irvine (London): I would like to ask the witness a question, if I may. I do not mean to take this out of context, and perhaps I did not get it quite straight, but I understood you to say that firms are “closing, as they are doing all the time”. Do you have a great number of firms which have indicated they anticipate a large number of lay-off?

Dr. Campbell: The answer to that is no, not at all. Every year there are—and this is

what I was really trying to say—a certain number of firms which close down. These are either inefficient firms or firms in industries which have been declining over the years, that sort of thing.

The Chairman: I think Mr. Irvine's point is: Did you make that statement with reference to Kennedy Round changes or as a reference to general, economic...

Dr. Campbell: It was a very general statement, not with specific reference to the Kennedy Round.

Mr. Irvine: Then outside of the Kennedy Round you do have quite an indication of large lay-off projections?

Dr. Campbell: No, no, I cannot say that we do.

Mr. Irvine: I ask this because on Monday of this week I called on a firm that employs approximately 500 people, and they claim that as a result of the Kennedy Round they are going to be in the position of having to lay off 300 of their employees. This will make it economically impossible for them to continue their whole operation. This is a big firm. The president of the firm said to me, “We will just have to place a for sale sign on our property”.

In a case of this type, where some 300 people would be involved, basically affecting some five hundred people, what would be the plans of the Manpower Department to look after such a firm? It cannot apply for a loan, because its rating is such that it does not qualify for assistance.

Dr. Campbell: That sort of case would really have to depend very much on circumstances; that is, if it is within a metropolitan area. The general situation, our general experience in the past, has been that we can place most of the workers without any extreme amount of difficulty because, as you know, there have been general shortages of skilled workers. Aside from those who cannot be immediately placed in some other firm, there are the other two basic programs. One is retraining for other jobs in the locality or elsewhere, and the second, of course, as a sort of a program of last resort, so to speak, is the mobility program. If there is nothing in the locality that is suitable we can assist workers to move to other nearby localities where work is available.

• 1115

Mr. Irvine: What type of relief, or assistance, would a firm with a large investment be entitled to because of their being disrupted under the Kennedy Round.

The Chairman: I think that the question relating to the firm itself should be directed to Mr. Wright who was with us last night and will be coming back as soon as these gentlemen have been excused.

Mr. Irvine: Further, then, Mr. Chairman, should this firm report to the Department of Manpower well in advance what their expected difficulties might be in their working force?

Mr. Campbell: It would certainly be very much appreciated if that were the case because it would enable us to do the proper advance planning to arrange whatever courses were necessary, and so on.

Mr. Irvine: As a result of any report they might make, would it be the function of the Manpower Department to send perhaps one or two people in to make a survey of the conditions existing in this particular plant?

Dr. Campbell: Yes; that is one of the functions performed by our Manpower Consultative Service. It has a number of experts around the country who are trained in looking into either adjustment situations or close-down situations.

Basically, under that program they can, if necessary, pay half the costs of any research that is required to determine what can best be done for the workers and for the company. When this sort of determination has been made the situation then becomes one which is handled essentially by the local Manpower Office in collaboration with neighbouring offices, if that is necessary or relevant.

The Chairman: It occurs to me, Mr. Irvine, that you may, for obvious reasons, not wish to disclose the name of the firm publicly here, but perhaps you could speak to Mr. Campbell after the meeting so that the manpower consultative service can take the initiative and contact the firm and make known the facilities they have.

In addition, it may be that the Department of Industry may want to get in touch with this firm, and they may want to make use of the industry side of this Adjustment Assistance Program, at least in its technical assistance aspect.

Mr. Irvine: They asked that they remain anonymous, pending a further conference after our deliberations during these meetings, at which time their indication was that they would be coming to Ottawa with me and perhaps approaching the Department of Manpower and other departments.

That is all I have at the moment.

Mr. Munro: I have just one thing to add to what Mr. Irvine has brought up. Mr. Campbell has referred to the Adult Retraining Program in which there is income maintenance which would help those employees. I think many of them would qualify for income maintenance in the particular situation you are talking about, because many of them have undoubtedly been on the work force for some time; and under the mobility program there is also the intention, as set out in the Prime Minister's statement, to increase the levels under the Unemployment Insurance Act, which should help in the transition, anyhow, of some of these employees.

Mr. Irvine: May I, Mr. Chairman, ask Mr. Munro to dilate on the income maintenance program without taking up too much of the time of the Committee? I am not too familiar with it.

Mr. Munroe: Under the Adult Retraining Program a man who has been in the work force for three years and has dependents can receive up to \$90.00 a month. Legislation was passed last year...

The Chairman: Ninety dollars a month, or a week?

Mr. Munro: A week; I am sorry.

The Chairman: This relates to his taking a course of approved training.

Mr. Munro: That is right; and I think many of the employees in a firm such as you have described would qualify for that type of assistance.

Mr. Irvine: Thank you, Mr. Chairman.

The Chairman: Mr. Lind?

Mr. Lind: Is this a subsidiary of an American company that Mr. Irvine is talking about?

Mr. Irvine: Mr. Chairman, there is no reason why I should not answer that, because there are many in the area in which I am resident.

Yes, it is, and it is a very large firm. They have many, many plants throughout the country. This is only one that I make reference to.

The Chairman: It may be that as a result of the information disclosed in these hearings and of consultations with officials of the Department of Industry and the Department of Manpower they may modify their initial considerations. Let us hope that they do.

Do any other members have questions of our witnesses? Mr. Gilbert?

Mr. Gilbert: Mr. Campbell, am I right in saying that employees of companies that are affected by the Kennedy Round and do not qualify for assistance are then subjected to the ordinary notice with regard to lay-offs and must fall back on either retraining or additional unemployment benefits?

Dr. Campbell: The benefits that the workers can receive are, of course, the same regardless of whether the company does or does not give notice. The situation is broadly as you have described it. Notice is available under this program either when the company receives a loan guarantee or a loan itself.

Mr. Gilbert: With regard to the retraining program, are the ordinary rules that now apply to retraining going to apply to the contracts that you have entered into with the provinces?

Dr. Campbell: The contracts remain the same. The schedules change from time to time. That is, the training schedules list the courses that we have, that the provinces are putting on, and those will be amended to take care of whatever may occur here.

Mr. Gilbert: At the moment you have to be in the industrial business field for a period of—is it three years?—before you qualify for a retraining program?

Dr. Campbell: No, no; in order to qualify for a retraining program you have to have been out of school for one year. The assumption is that retraining does not generally apply to people who have been out of school less than one year.

To qualify for allowances you must have been out of school and in the labour force, that is, either working or looking for work, or working for yourself for a period of three years, or have dependents, and therefore need the money to support them. The allowances, I might say, are intended basically as an income replacement device to let people

take training who otherwise could not because they would lose their income. People who do not qualify for full allowances can, of course, continue to receive their unemployment insurance benefits while they are in training.

• 1120

Mr. Gilbert: Then am I right in saying, that in order to qualify under these contracts you have entered into with the provinces for retraining, the person must be in the labour force for a period of one year, and in order to get allowances he must be in the labour force for a period of three years.

Mr. Campbell: Not quite; they must have been out of school for one year, and that one year need not have been spent in the labour force, necessarily. It could, so to speak, have been spent basking in the sun in Florida, or keeping house, or something of that sort.

On the allowance side, in order to receive an allowance you must either have dependents or have been working for three years, and therefore have worked yourself into a position where you become dependent on an income for your support. I should say, as I said earlier—and this describes it a bit—it is either “working” or looking for a job; some degree of attachment to the labour force, in this sense.

Mr. Gilbert: To sum up, the same rules that apply at the present are going to apply to the contracts you have entered into with the provincial authorities.

Mr. Campbell: That is correct. It is the application of the manpower programs that we have to the Kennedy Round situation.

Mr. Gilbert: That is all. Thank you, Mr. Chairman.

The Chairman: Are there any further questions from the Committee?

I just have one or two questions. I note the following in the Prime Minister's statement:

When a company reorganizes production and introduces new technology, the occupational training legislation provides for the whole cost of an in-plant training program so that workers who would otherwise be displaced can adapt to the new jobs.

What exactly does cost mean in this context?

Mr. Campbell: Cost there, Mr. Chairman, means the cost of teachers, textbooks, materials, and things of that sort.

The Chairman: So that it would not provide any additional burden on a firm.

Mr. Campbell: That is correct. It also provides for the company to maintain the workers' wages while they are in training, with reimbursement—it varies a bit—of all or most of those wages to the company from the federal government.

The Chairman: Would these workers have had to have been out of school for one year, or in the labour force for three years?

Mr. Campbell: They would have had to have been out of school for one year in order to qualify for the training, yes.

The Chairman: In other words, if a firm, let us say in a month, is reorganizing its production and introducing new technology, your Department could provide the whole cost of the training program to retrain the workers who make use of the technology; but you would not be assisting a company with respect to the maintenance of wages of workers who had been in the labour force for less than three years?

Mr. Campbell: That is correct, unless they had dependents.

The Chairman: Unless they had dependents, so if the worker in these circumstances had been in the labour force for less than three years but had dependents, he would be in a position to continue to get his wages from the company with the company being reimbursed by the government, is that correct?

Mr. Campbell: Yes, that is correct. I might add, just on that point, that we have quite a number of these contracts now in effect across the country, and firms historically have done quite a bit of training. Although, I think, not as much as any of us would have liked to see. But the firms who are interested in engaging with us in these training programs are generally willing to take on a share of the responsibility themselves, and we encourage them to do so.

• 1125

The Chairman: Yes; and another thing I think we should get clear is that it is not

three years with the firm, it is three years with the labour force.

Mr. Campbell: That is correct.

The Chairman: Where the worker has been hired only a month or two before the company begins reorganizing, this will not prevent him from taking advantage of this program.

Mr. Campbell: Yes, that is absolutely right.

The Chairman: Even if the worker has not been out of school for a year or in the labour force for three years, there is nothing to prevent the company from paying the wages without reimbursement from the federal government so that the worker can continue to take the retraining.

Mr. Campbell: That is correct, and that is, as I said, generally the case.

The Chairman: Now, has your Department's Manpower Consultative Service intensified or expanded its program of watching or keeping track of situations such as the one that Mr. Irvine has told us about?

Mr. Campbell: Yes, that is being expanded and intensified, I should not say in preparation for the Kennedy Round particularly, but as a general measure.

The Chairman: If you learned of a situation, such as the one Mr. Irvine described, through your own sources, do you take the initiative and go to the firm and to the union and say, let us sit down and work out some scheme of readjustment; or phasing-out, or phasing-in for that matter?

Mr. Campbell: It is as often phasing-in as phasing-out. This can on occasion, as Mr. Irvine will appreciate, be a delicate matter because there is often confidentiality involved. The general way this comes to us, is, in fact, normally by contact either with the firm—the firm will frequently call up either the local centre or headquarters and explain that it has something like this coming, and ask what we can do to help about it—or it may come through other routes. The provincial government may contact us; the firm may have gotten in touch with them about some aspect of things. It is at that point that the Manpower Consultative Service begins to function; normally by making a preliminary contact of some sort with the firm to see whether the firm can be interested in this sort of an arrangement.

Mr. More (Regina City): Mr. Chairman, could I ask the witness what happens if the initiative comes from the union concerned?

Mr. Campbell: Well, again, regardless really of where the initial contact may come from, the officers of the Manpower Consultative Service will explore the situation with the officers of the company involved in order to see whether something can usefully be done. I might add in that connection, the Manpower Consultative Service, by intention, deals with situations in collaboration with the company and the union or representatives of the workers, because it has been found that this is the most effective way really to plan for technological changes occurring within a firm.

The Chairman: Now, just two final questions on my part. Perhaps Mr. Munro would prefer to deal with this. Has the possibility been looked into of the federal government requiring notice from firms who may be having lay-offs or changing their production but are not requesting financial assistance from the federal government? Let me phrase it a different way. Have you sought advice as to whether the federal government has jurisdiction to require notice of firms who may be laying-off workers or shutting-down parts of their operation allegedly because of the Kennedy Round?

Mr. Munro: My information, Mr. Chairman, is that except for those industries that fall under federal jurisdiction, we have no competence to do it.

The Chairman: What you can insist on is the condition of making a loan under this program.

Mr. Munro: That is right.

The Chairman: Are you able to tell us whether this situation is any different in the United States where they have had an adjustment assistance program arising out of their legislation to implement tariff changes under the Kennedy Round?

Mr. Munro: I am not aware but perhaps Mr. Campbell is.

Mr. Campbell: I am afraid I cannot speak precisely to that either. My impression is that it is not, but I would want to check.

The Chairman: Perhaps you can check with the Department and we can have this information later.

• 1130

If we have no further questions for these witnesses we can excuse them and ask Mr. Wright to return so we can complete our questioning. Thank you, very much.

When we adjourned last night I believe the next name on my list was Mr. Wahn. Before calling upon Mr. Wahn we should recall that Mr. Clermont asked the very interesting question whether or not firms which sought and obtained assistance under the Adjustment Assistance Program...

Mr. Clermont: Mr. Chairman, I would like to make a correction. The question was asked by our colleague, Mr. Comtois.

The Chairman: Oh yes, I am sorry. This would appear obviously from the record, and I thank you for bringing it to my attention. The question was whether firms that obtained loans under the Special Adjustment Assistance Program would also be eligible for assistance under the Designated Area Program if they went into a designated area. Perhaps we should ask you to deal with that, Mr. Wright.

Mr. Wright: Yes, Mr. Chairman. The question as it appears in the record reads as follows:

If a company which is affected by the Kennedy Round negotiations were to decide to move its plant to a designated area, could this same firm also take advantage of the designated area subsidies as well as the loans?

First of all, in order to attempt to clarify this matter I think I should just review very briefly how a firm qualifies for a grant under the Area Development Program. The relevant extract from the programs information in this respect is:

Any person or firm establishing a new manufacturing or processing facility or undertaking a significant expansion of an existing facility in a designated area may be eligible for a Development Grant. An important condition is that 95 per cent of the machinery and equipment installed in the new or expanded facility must be new. An increase in employment is required to qualify for a grant on a facility being expanded.

Well, Mr. Chairman, in the light of that requirement I think it is clear in answer to

this question that if a firm were merely to move its plant into a designated area from a non-designated area without 95 per cent of the plant as it was established in the designated area being new, they would not qualify for a grant under the ADA program. However, if a plant is set up within the framework of the ADA legislation and regulations and sufficient equity is available the plant will, of course, qualify for a grant under that program.

Whether it will qualify also for a grant under the Adjustment Assistance Program as now envisaged is a matter, sir, about which I think probably it would be better for us to inform the Committee in writing after we have had a chance to explore it further because, as I said yesterday, this program at present is in the process of being evolved and there are still some questions which have to be resolved, and we have not specifically adjusted ourselves to this particular question at this time.

The Chairman: Thank you, Mr. Wright.

Mr. Wright: I might just say, though, subject to looking into it further, as I indicated yesterday in my reply I think if a firm did qualify for a grant under the Area Development Program and it also qualified under the criteria which will be established for the Adjustment Assistance Program it could get a loan under the latter program.

• 1135

The Chairman: Mr. Wahn?

Mr. Wahn: Mr. Chairman, I think perhaps the questions I had in mind have been answered, but I might just double-check it. The Adjustment Assistance Program seems to contemplate various types of assistance where a firm has been damaged as the result of the Kennedy Round but proposes to carry on business. Am I right in thinking, Mr. Wright, that there is no compensation given under the program where a firm may have been damaged as a result of the Kennedy Round and the owners have just decided to go out of business entirely?

Mr. Wright: That is correct, sir. The fundamental emphasis in this program is to assist firms that are threatened with injury or suffer serious injury, or are going to take advantage of export opportunities to become competitive in the new conditions arising out of the Kennedy Round.

Mr. Wahn: That is all.

The Chairman: Are there any further questions? I want to ask just one or two questions. Are you able to tell us whether you have received any applications for assistance yet?

Mr. Wright: I could answer that question in this way, Mr. Chairman: We have been talking, of course, to the people within the Department of Industry who are in constant contact with firms, and they inform us that there are a number of prospects they feel confident will be interested in this program who will, in all likelihood, be putting forward applications when the program is set up.

The Chairman: Does the Department contemplate that there will be a large number of applications?

Mr. Wright: I think it is a little too early at this point, Mr. Chairman, to try to put a number on it. The information we have so far indicates that there will be a substantial number them but I would not, as I say, like to try to guess at any particular figure at this point.

The Chairman: If someone is interested in applying for this type of assistance, just what should they do at the present time?

Mr. Wright: At the present time, sir, I think they could well get in touch with the Department of Industry and we could advise them of the present situation much along the same lines, sir, as we have advised the Committee of the present situation. As you know, discussions are now proceeding with lenders and there are a number of details that have to be ironed out before the program actually is in effect.

The Chairman: My final question is this: Is it contemplated that Canadian industry as a whole will be so substantially affected that large segments of it will be attempting to make us of this program?

Mr. Wright: Could I perhaps divide the answer to that question into two parts? From all the information we have received so far, the adverse effects of the Kennedy Round—that is, the threat of injury or serious injury—are not at all substantial. Of course, we have listened with a great deal of interest to some of the information that has developed during these hearings, and naturally we would be very interested to participate in any discussions in which we may be asked to take part along the lines that have been raised

here. Otherwise, except for the very odd case as Mr. Sharp mentioned, and as is mentioned in the Prime Minister's statement, from the information we have so far we expect that there will be a very limited number of cases that will be looking to the government for direct loans because of injury or threat of injury, and who cannot qualify for an insured loan. So much, then, Mr. Chairman, for the injury side of the program.

On the export opportunity side of the program, as Mr. Winters I think indicated, the expectation and the hope is that there will be a good number of firms who will see increasing market opportunities for commercial exports in world markets as a result of the Kennedy Round tariff reductions, and if they cannot get the financing they require to take advantage of these opportunities through normal commercial channels, we, of course, hope that they will want to take advantage of this program to put themselves in a position to penetrate world markets to a greater extent than they now are.

The Chairman: Any further questions, gentlemen? Mr. Irvine, followed by Mr. Lambert.

Mr. Irvine: I brought up this subject before and I was advised that this question should be levelled at Mr. Wright with regard to this manufacturing firm which has 500 employees, 300 of whom will be affected by these tariff changes. I would like to ask the question of you, if I might, what type of relief or compensation would this manufacturing firm receive because of the great investment that they have and the great loss that they would incur?

• 1140

Mr. Wright: I do not think I can answer that question, sir, in any other way, except to say that if they qualified under the eligibility criteria which were indicated in the Prime Minister's statement and were sketched out a little more fully in the remarks that I made in opening yesterday—if they are eligible under the program—of course, they could obtain assistance with the approval of the Board. That is, financial assistance apart altogether from the arrangements that were spoken of on the labour side of this disputation.

Under this program, at this time, there is no other assistance contemplated except that which has been outlined, namely, insured loans or direct government loans and technical assistance for those people who are applying for loans under the program, if it is required.

Mr. Irvine: In other words, they will not be applying for loans or assistance in that respect. So, on the other hand, there is actually nothing in the cards for them at all?

Mr. Wright: Not in this program.

Mr. Irvine: Have you any other program in mind when you make that statement?

Mr. Wright: I have no other program in mind, sir, except that it is quite conceivable and it has happened before that in special cases the government takes special measures. But, as far as the character and the parameters of this particular program goes they, of course, would only be able to get the assistance which is available under the program.

Mr. More (Regina City): May I ask a supplementary question, Mr. Chairman? In other words, Mr. Wright, if a firm just throws up its hands and says we are going to close down, they will take whatever loss comes in selling their facilities and their investment return will depend on their own action?

Mr. Wright: Yes.

Mr. More (Regina City): Your program only assists if they are going to try to continue to operate, maybe, in a different field.

Mr. Wright: This program is a program of viability. That is correct, sir. And, as has been said here frequently, so far we have not had information which would indicate that there are going to be very many people at all who are going to have to close their doors as a result of the Kennedy Round.

Mr. Lind: I was wondering, Mr. Wright, what would happen to a firm which was ahead, probably, in 1967 and had utilized their labour force completely so that when they were running on a particular line of merchandise, they ran at full capacity or at overproduction in order to obtain the maximum efficiency and probably they built up a large inventory. They have enjoyed the benefits of full employment or full-line production over a period of months and their warehouses are well filled with inventory, but due to the Kennedy Round of tariff cuts do we give them assistance or do we say that was a business risk?

Mr. Wright: Let me see, sir, whether I have understood fully the question. Are we talking here of a firm that, throughout last year, was running at full production capacity and had built up an inventory?

Mr. Lind: That is right.

Mr. Wright: In 1968, in this case, sir, what would be the effect of the Kennedy Round on their position? What is envisaged in this respect?

Mr. Lind: Well, maybe they have enjoyed markets where they did not have the full impact of competition from people who can bring in merchandise at a lower value, or lower cost.

• 1145

Mr. Wright: Thank you. I think I understand, now. This is a domestic situation where somebody is finding it difficult to compete in Canada in the post-Kennedy Round conditions because of a cut in the Canadian tariff. If he was threatened with injury or suffered serious injury and he came forward with a scheme that would make him competitive and viable and he could not get the financing elsewhere, I would think that he would be certainly the type of case which the Board would want to consider.

Mr. Lind: Even if there was a seasonal factor involved in the case of this company? You must realize how some industries operate. Their big sale of goods is probably in the summer months where our Canadian winters have a factor involved in this.

Mr. Wright: Yes.

Mr. Lind: You would still give them assistance?

Mr. Wright: No. I think in that particular type of circumstance, under the program, he would not be fundamentally restructuring his business in order to be competitive under the new trading conditions. This is just a question of seasonal fluctuations. I would not think that the Board would be as interested in looking at somebody who is faced with a seasonal problem as they would with somebody who is putting up a proposition to re-organize and re-equip in order to be viable under the new conditions. But, having said that, Mr. Chairman, I think I should probably add that I do not think it is helpful for me to try to anticipate in detail how the Board would consider particular cases because, after all, that is why the Board will be set up with outside members on it to judge these matters on their merits as they come forward.

Mr. Lind: On this point, is this assistance designed primarily to help firms in entering

other fields, for instance, where they export outside the area of Canada, or is it to assist Canadian manufacturers in meeting the increased competition due to the lower tariff barriers?

Mr. Wright: It is for both purposes, sir. From the information we have, we think that probably more use will be made of the program to take advantage of export opportunities than to assist firms which are threatened with injury or are suffering injury.

Mr. Lind: Do you anticipate many firms in Canada being injured internally, that is, in Canada, from these cuts? I am talking about sales to the Canadian market.

Mr. Wright: Yes. I think I understand, sir. The answer to that is that from the information we have we do not.

Mr. Lind: Then, primarily, this assistance will be in the way of a loan, such as industrial acquisition loans or through IDB or one of those along a similar line...

Mr. Wright: Yes.

Mr. Lind: ...in order that they may tool up and machine up to produce a product that can enter foreign markets, shall we say?

Mr. Wright: That is correct. In order to re-organize, re-equip and take such measures with respect to managerial practices—production scheduling, cost control, budgeting, planning, market surveys—and the whole constellation of matters that will need to be looked into and arranged effectively in order for the firm to be competitive.

• 1150

Mr. Lind: In other words, you are going ahead and doing a job of promotion for these firms so that they will be able to enter foreign markets and meet foreign competition.

Mr. Wright: This assistance, sir, I think as the Prime Minister indicated in his statement, will be made to firms who apply for it. We do not look at this program as one of government intervention. The assistance is made available when it is otherwise lacking and the firms ask for it and they cannot get the financing elsewhere. Technical assistance will also be available to firms as required for the purpose of ensuring that their plans are on the best possible footing so they can be successful.

The information they may require and the assistance they may require from governments with regard to penetration of foreign markets will, of course, to a large extent be available from the Department of Trade and Commerce with whom, of course, we anticipate we will be cooperating very closely throughout this program. One of the senior officials, probably the Deputy Minister of the Department of Trade and Commerce, will, it is expected, be a member of the Adjustment Assistance Board for this program. In addition, of course, if specialized knowledge is needed about external markets this can be obtained through the private sector.

In the first instance I suppose some of the technical assistance which may be provided in framing the proposal will give a pretty clear indication of that. As part of its proposal, the firm may have advised the Board that it wishes to pursue and develop further the market surveys which it has made and it would subsequently be possible, of course, for it to use some of the assistance obtained through the loans under the program for that purpose.

Mr. Lind: I gather that your department is prepared to give technical assistance, sales know-how and information from trade commissions to assist these firms in expanding their market. But then again, coming back to this loan, is this a long term loan? What I mean is can it be repayed over several years? It is not just a short-term loan that you have in mind?

Mr. Wright: No, no, no, that is correct sir. The duration of the loan will, of course, depend upon the purpose of the loan. If somebody is buying some heavy equipment to reorganize their production facilities why that would involve, depending upon the life of the equipment and other factors, obviously a longer term loan than loans perhaps for other purposes.

Mr. Lind: But, for instance, branching off to the forest industry, would this loan provide for a seasonal factor such as we experience in the forest industry in some places. You would not be taking that into consideration. You must see that they are endeavouring to take advantage of the Kennedy Round and export to the foreign market. Is this not right?

Mr. Wright: On the export side or on the damaged or threatened injury side. One would expect a seasonal loan for somebody in

the forest industry—I can appreciate your view on this sir—would normally be available to a firm from a bank or whatever other source of financing they are using as a matter of course, would it not?

Mr. Lind: Well either a bank or I did not know whether the IDB was in that area.

• 1155

Mr. Wright: The IDB is really a term lender I suppose. I think that seasonal loans would come in the area possibly of normal working capital loans which would be financed through normal commercial channels.

The Chairman: Section 88 of the Bank Act, that sort of thing, an old friend of ours. I am sorry, are you finished Mr. Lind?

Mr. More (Regina City): Just one supplementary, Mr. Wright, about the assistance in the technical fields available to firms who prove their case whether they have an insured loan or a direct loan.

Mr. Wright: Yes, let me try to just expand on that for a second if I can. We anticipate that some firms will come forward with proposals that are formulated to the point where, with some consultation with the Department of Industry on the necessary procedure and so on to put them before the board, they can be processed and approved without any further steps being taken. However, in other cases it is anticipated that a firm which is interested in moving into a new area, a new product line, a new market, with which they have not had much past familiarity, in order to come up with a sound proposal which will be judged to be viable by the Board may want to have the services of outside consultants in the private sector who are very familiar with the matters they are considering. In this case the government, under this program, would share the costs of such services up to 50 per cent. In this respect, sir, in answer to your question the technical assistance would be tied to an application for a loan and the proposal would therefore go forward to the Board. But just because a firm has got technical assistance would not necessarily mean that the Board—the Board would still have to have the freedom to exercise its own judgment on that particular application. Two things I suppose could happen. The Board could still turn the application down if it was not considered sound even though outside consultants had been involved in it. The second thing that might happen, and I think we would welcome this, would be that the

Board would say, well, this thing is in very good shape now; why do you not see whether you cannot negotiate this normally without resort to a government guarantee and get the thing in the normal event. Well, if they tried to do that and they still could not get it well then they could come back to the Board and they would then apply for a guarantee.

Mr. More (Regina City): Mr. Wright, is it not conceivable that this may cause firms which are able to do their own financing to need technical assistance and is there no help for them? Is this not discriminatory?

Mr. Wright: On this particular point we have set aside under the program a limited amount of money for technical assistance on a shared cost basis with a view, at least partially, to ensuring that the loans which are guaranteed are made directly, are going to be sound commercially and will in fact be repaid. If a firm is in a position to do its own financing it presumably is also in a position to arrange that financing with the private lender in any manner it sees fit as long as it gets the loan. I think what we would be reluctant to see sir, would be firms that are in a sound commercial position simply coming into this program for the sole purpose of getting half of the management consultant fees paid for whatever they may be wanting to do and not really having any intention of taking advantage of the other features of the program.

• 1200

Mr. Hees: Mr. Chairman, is a firm that is considered to be financially sound and not in need of a government guaranteed loan eligible for government sharing of retraining costs in retraining their employees for certain new types of work that have to be undertaken?

Mr. Wright: Yes. Well, sir, as I understand it, they would be fully eligible for those programs that were described here earlier this morning.

Mr. Hees: In other words, all companies are entitled to the shared costs...

Mr. Wright: For manpower.

Mr. Hees: For manpower.

Mr. Wright: Whatever is available under the Manpower program. That will be available, yes, as I understand it.

The Chairman: Mr. Gilbert?

Mr. Gilbert: Mr. Wright, is there any distinction, in qualifying for a loan, between a Canadian-owned company and a branch plant of an American-owned company?

Mr. Wright: The answer to that, sir, as the program is now formed, is that it is intended to operate along the lines of the auto adjustment assistance program, and if a firm operating in Canada is eligible under all the criteria of the program they will qualify for a loan.

Mr. Gilbert: It matters not whether it is Canadian-owned or is a branch plant of an American-owned company?

Mr. Wright: That is correct. But one has always got to remember, in this connection, that they cannot qualify for a loan under this program if they can get the financing elsewhere on reasonable terms and conditions.

Mr. Gilbert: Do you know if the United States government gives the same type of treatment to branch plants of Canadian-owned companies in the United States?

Mr. Wright: Under their Adjustment Assistance Program, down there? So far, as you know, the Adjustment Assistance Program in the United States, which was put in place under the Trade Expansion Act of 1962, has not really become operative. The eligibility criteria under that program were really of such a restrictive nature that, to my knowledge, no assistance has been made available to this date under the program. Therefore, there is really no practical answer to that question. I cannot answer it except in that way.

Mr. Lambert: Mr. Chairman, I have been interested in what is almost the corollary of the assertions made by Mr. Wright in this use of the word "sound" and of the reverse, "unsound", that if it is a sound firm that will have access to normal financing requirements the only firms that you will be dealing with will be unsound firms. I mean, from your choice of language I think one can draw that conclusion.

Mr. Wright: We do not draw that conclusion. Let me try to answer that question. I can certainly understand why it arises.

We think of this program being available to firms which may not have an established record of earnings, for example, which may not have the kind of security normally required for a commercial loan, or which may

be innovating to an extent that they find it difficult to get financing from ordinary commercial sources and have a proposal which may require a considerable amount of work to be done on it. For instance, if they have a proposal, without a record of earnings, without what was considered to be adequate security, they might be turned down.

• 1205

If they brought this proposal around for consideration under the program a considerable amount of work would be done to put it in shape, in co-operation with the firm and with the assistance of outside consultants, if required. Then the guarantee provision would come into effect, which would, as I think Mr. Sharp said, represent extra security for that particular loan when it was under negotiation between the lender and the borrower after the board had indicated that the guarantee would be made available for that loan.

Mr. Lambert: Would you agree that anybody involved in financing with the IDB prior to this would be almost a prime candidate for your program? Certainly the IDB, if it is going to advance a dollar will take a blanket mortgage; it will almost take a mortgage on the gold teeth of the directors; and for long-term financing they have no other recourse but to come to you. May I ask how many disability badges you will require?

Mr. Wright: You mean as proof of last resort?

Mr. Lambert: Before you are able to entertain one how many letters of denial, or of rejection, or, as I call them, disability badges will you require?

Mr. Wright: First of all, if a firm can get financing from any other source, including the IDB, they will not be eligible to get a guarantee under the program.

As regards disability badges, the board will have to satisfy itself that the firm cannot get the financing elsewhere and exactly what procedure they will use. How onerous it will be considered by an applicant firm is difficult to say at this particular point, but, of course, the program must be operated in such a way that procedural difficulties will not vitiate its effectiveness.

Mr. Lambert: Surely to goodness the board would envisage reasonableness rather than an absolute burden. To use the language of a lawyer, there is a great difference between a

reasonable burden of proof, or reasonable probabilities, and being guilty without any reasonable doubt; in other words, that you have to show absolute proof that you are unable to get financing.

Mr. Wright: May I say, sir, that I am very interested in your views, and I think that the Department is interested in hearing this expression of your view.

The Chairman: Mr. Hees?

Mr. Hees: My question was similar to Mr. Lambert's. I am wondering how long it would take. How many banks, trust companies and insurance companies would have to be approached before the board would be convinced that the company could not get normal financing? I think it is a most important matter.

Mr. Wright: I think it is a very important part of the program, sir. I can only repeat that we would hope that the procedural requirements would not inhibit the effectiveness of this operation of the program.

The Chairman: Mr. Gilbert?

Mr. Gilbert: Mr. Wright, you said previously that you have had discussions with banks. Did they include the IDB?

Mr. Wright: The IDB, of course, is fully aware of this program. We have had an initial meeting with the banks and are having continuing meetings with them on detail. There is one tomorrow. It is rather difficult to say at the moment how long it will take before the details are...

Mr. Gilbert: And they include the IDB; is that right?

Mr. Wright: The IDB, in fact, because of its relationship with the government, is, as I say, fully informed about the progress of the involvement of the program; and they are kept informed in that way. For example, the first meetings were with the representatives of the chartered banks, and as the Prime Minister indicated in his statement these discussions will, of course, be extended later to other lenders who may be interested.

Mr. Gilbert: Mr. Wright, are the three areas of assistance to industries mutually exclusive? In other words, could a person get a government insured loan and technical assistance?

Mr. Wright: Yes; they are mutually exclusive in that one cannot get a direct loan and an insured loan at the same time; but one can get technical assistance either way.

Mr. Gilbert: Yes. And when you refer to technical assistance you are really referring to consulting services. Is that right?

Mr. Wright: That is right.

Mr. Gilbert: Thank you very much.

The Chairman: I presume this is in the area of production and technology.

• 1210

Mr. Wright: Production, technology, management, marketing—the whole range of factors that go into increasing productivity and strengthening the company's competitive position.

The Chairman: With reference to subsidiaries of United States firms, if an application is made by such a subsidiary would one of the criteria which would be taken into account be the opportunity of this subsidiary to obtain financing or guarantees of financing from the parent company?

Mr. Wright: Very definitely, I would think.

The Chairman: So that in a sense, if this is taken into account, pressure on Canadian sources of financing for Canadian firms would not be increased?

Mr. Wright: Yes. Because, as you point out, Mr. Chairman, one of the criteria of the program is that the particular firm cannot obtain financing on reasonable terms and conditions elsewhere.

The Chairman: But if a U.S. subsidiary were not eligible, then there would be a risk to the economy in the sense of loss of jobs or the production for Canada which may exist?

Mr. Wright: Certainly. With respect to its impact on the economy in the areas that you mention, I would think that that is very much the case.

The Chairman: Mr. Lind.

Mr. Lind: If an American subsidiary over the past years has been in the habit of returning their surplus to the U.S. parent company, at the present time would they be eligible for assistance under this scheme?

Mr. Wright: I do not think I am really in a position to go into that kind of detail at this particular point, sir, although I appreciate the relevance of your question.

Mr. Lind: On page 321 of your statement you refer to direct loans, and at the bottom of the page you say, "adequate financing cannot be obtained from other sources on reasonable terms and conditions". What is your criteria for "reasonable terms and conditions"? Do you set a maximum and minimum of interest?

Mr. Wright: That is another excellent question, sir. I think that "reasonable terms and conditions" would be a matter on which the Board would have to exercise continuing judgment as the program developed in the light of the situation prevailing in the financial markets, and more particularly in the light of the viability of any proposal that is put forward to the Board. If the potential applicant attempts to obtain financing from commercial sources and is offered financing at a rate of interest which is too high in the sense that the project could not stand it—it would not be viable at that rate of interest—and if he then comes before the Board and an analysis is done of this project which shows that it is sound and viable at a certain rate of interest, I presume that would be the rate of interest for which that particular borrower would negotiate. When he had assurance from the Board that he would be eligible for a guarantee, that is the rate of interest for which he would be negotiating when he went to the lender.

Mr. Lind: Is there any control such as we put on CMHC at 2.25 per cent over the short term bonds available from the government?

• 1215

Mr. Wright: Under this program, sir, it is the intention to have the borrower and the lender negotiate the terms and conditions of the loan subject to the competitive forces in the markets. For example, in the *Globe and Mail* on Monday there was quite a lot of material which indicated that in the banking system competition was intensifying considerably under the implementation of the revision of the Bank Act. There will be other lenders in this as well as the chartered banks. So rather than having the government as such attempt to dictate in detail what the exact rate of interest may be on any particular loan which is going to be negotiated under a guarantee between a commercial borrower and a

commercial lender, as well as the duration of the loan and other conditions, it is intended under this program that these matters will be arranged by the commercial borrower and the commercial lender. This is subject, of course, to the extension of the guarantee by the Board, who presumably will have to be satisfied that the arrangements are viable before they extend the guarantee.

Mr. Lind: How low do you intend to go on this? Are you going to deal with small industries or only with large industries?

Mr. Wright: I think, sir, we will be prepared to deal with any size of industry which qualifies under the program.

Mr. More (Regina City): Could I ask a supplementary question? In one specific sphere of aid in this connection it says, "where 20 or more employees are affected". Do I take it that industry with 20 or more employees would be qualified, or is there going to be any...

Mr. Wright: As I understood that particular provision it related to the advance notice requirement...

Mr. More (Regina City): That is correct.

Mr. Wright: ...of three months when 20 or more employees are laid off for two months.

Mr. More (Regina City): That is right.

Mr. Wright: As to the size of the industrial unit that can qualify under this program, if there is going to be a lower or upper limit placed on that size I imagine this would be for the determination of the Board.

Mr. More (Regina City): There is no determination at this stage?

Mr. Wright: At this particular stage there is no determination because it is up to the people who qualify under the program and whose operations will meet the objectives of the program, and they should be eligible on those grounds rather than on the grounds of size. Of course, it is expected that many of the larger firms will have a credit rating which will enable them to obtain their financing from ordinary commercial sources rather than coming to a Board to get a government guarantee to obtain financing.

The Chairman: Then I trust, as I think Mr. More has implied, that small businesses will have no lesser access to this program than the bigger firms.

Mr. Wright: Certainly not. I think it would probably be on the contrary, sir.

Mr. More (Regina City): They will have equal access. Let us say that the small firms would be more apt to use it than the big ones.

The Chairman: I take it, Mr. Wright, from our discussion that the purpose of this program is to assist firms to keep going if they can do so on a competitive basis rather than to compensate them if they just simply want to close down?

Mr. Wright: That is correct, sir.

The Chairman: The stimulus is for continued operation and continued employment.

Mr. Wright: That is right, and growth.

The Chairman: So I trust that perhaps a firm such as the one Mr. Irvine has referred to may, with his encouragement, consider that it would be a matter of good corporate citizenship, even if they are an American subsidiary, to seek opportunities to keep in production.

Mr. Gilbert: I wonder if the type of company that Mr. Irvine speaks of would be entitled to assistance from the U.S. government?

The Chairman: I do not know if Mr. Wright can comment on that.

Mr. Wright: I would be reaching for it a little bit, sir, but my recollection of the provisions for adjustment assistance under the Trade Expansion Act is that it would not include a subsidiary of the United States operating outside the territory of the United States, but we could check on that for you.

Mr. Hees: I would think, if anything, they would be very much against it, in view of President Johnson's recent announcement of financial difficulties.

Mr. Wright: Yes, I think very much so.

The Chairman: We appear to have concluded our questioning of Mr. Wright and I think it has been most informative.

Is it the wish of the Committee to now hear from Mr. Rod Grey on anti-dumping, or to ask him to come back at the beginning of our afternoon session?

Mr. More (Regina City): I think we are close to adjournment time.

The Chairman: Mr. Hees.

• 1220

Mr. Hees: Before Mr. Wright leaves the table I would like to congratulate him on being an excellent witness. I do not think I have ever heard a better witness since I came to Parliament. He has been clear, concise, direct and he has not wobbled and that is something very, very pleasant to hear on Parliament Hill. Congratulations to Mr. Wright.

The Chairman: I think this helps show the advantage of having a substantial part of Parliament's work done in committees such as this where we have the advantage of having direct exchanges both with officials and members of the public who are concerned.

Before we adjourn I think I should draw to the attention of the Committee a point raised by Mr. More about which he asked me privately. Some members of the Committee have asked questions which are to be answered in writing directly to them. I think the Committee will agree with me that if a question is asked at a hearing of the Committee, as a regular question and if the answer is made in writing, the member should make it available to the other Members of the Committee and it should be printed in our proceedings.

Mr. Monteith: Could we not have them appended to the minutes?

The Chairman: That is what I meant, yes.

Mr. Hees: I will bring mine in.

The Chairman: For example, Mr. Hees, I believe, has received answers to some questions and I am sure they would be of interest to the rest of us, as well.

Mr. More (Regina City): Yes, I just want to raise one other point. There are still questions that were asked that have been unanswered. Mr. Schwarzmenn undertook in regard to a question by Mr. Lambert on potash...

The Chairman: That is right.

Mr. More (Regina City): ...and those questions should also be printed.

The Chairman: That is right. I think it is very likely that a lot of questions directed to Mr. Schwarzmenn will be answered by him orally in his appearance before us later this afternoon and as we continue our hearings he will be here with Dr. Annis.

Mr. More (Regina City): I have one more question, Mr. Chairman, what about sittings?

I think it is rather late to leave it until 5 o'clock to decide whether we will sit tomorrow or not.

The Chairman: I thought that we had more or less agreed that we would not attempt to sit tomorrow, unless everybody has changed his mind.

Mr. More (Regina City): No, no change.

The Chairman: But, it has occurred to me that we should deal with one other point before we adjourn. I gather that we are agreed we will resume our sittings at 10 o'clock next Tuesday and I am going to present the motion we agreed on to let us sit when the House is sitting.

Mr. Monteith: At 10 or 10.30 a.m., as we have been doing?

The Chairman: Sorry, at 11 o'clock because of the other committees. Thank you for bringing that to my attention, We will meet at 11 o'clock next Tuesday.

Mr. Lind: Mr. Chairman, I asked some questions earlier on the tobacco industry. Will Mr. Grey be able to answer those?

The Chairman: If the questions relate to anti-dumping, I think Mr. Grey would be in a position to attempt to deal with them. If they relate to the tariff concessions we are giving or concessions we are gaining elsewhere, I think Dr. Annis and Mr. Schwarzmenn will be in a position to answer.

Mr. Lind: When will Dr. Annis be here?

The Chairman: Later this afternoon.

Mr. Lind: Thank you.

The Chairman: I have one other point. We have received a number of briefs, as you know. We will have to begin scheduling these people. There are two ways we could arrange to do this, I could convene a meeting of the Steering Committee to review the briefs, or if the Committee prefers, they could leave this to me to work this out in consultation with our Clerk.

Mr. Monteith: You try to work it out and present a schedule to us.

The Chairman: And with our Vice-Chairman, I should add.

Mr. Clermont: I hope these briefs are distributed to the members well in advance, not the night before the sitting.

The Chairman: No; I will see that they are distributed in plenty of time.

Mr. Clermont: Especially if we cannot get French and English copies.

The Chairman: Your point is very well taken and I will be looking after that. I might say that it is my view, if it is practical, that we should attempt to have the relevant officials available when the briefs are presented. While we do not want to have a debate between the witness and the officials, we might be able to ask the officials, almost on the spot, what their reaction is to the brief. They may have answers to clarify some of the points raised in the brief. Does this seem practical to the Committee?

An hon. Member: I agree.

The Chairman: I am going to try to arrange our schedule in that way so we can have some answers with respect to the points raised in the brief, contemporaneously or almost contemporaneously, with the presentation of the brief.

I think we should adjourn until 2.30 this afternoon.

AFTERNOON SITTING

• 1443

The Chairman: Gentlemen, I think we are in a position to resume our meeting and our witnesses this afternoon will be Mr. R. Y. Grey, Assistant Deputy Minister of Finance, followed by Mr. Randolph Gherson of the Department of Trade and Commerce, Mr. Gherson is Chief of the United States Division. Mr. Grey will make a presentation to us on the anti-dumping code.

Mr. Clermont: On a point of order; it looks as if at the end of the morning session when I suggested that the brief should be sent to us as soon as possible I gave the impression in some quarters that it might be the fault of the staff; this was far from my mind. I did not have this in mind at all, but as you are aware, sometimes the briefs are late in coming to our staff. May I take this opportunity to make a few corrections, Mr. Chairman.

The Chairman: Yes, corrections in the record.

Mr. Clermont: On page 314, at lines 38 and 39, there seems to be a repetition there. "This gap as being 33 per cent or less", and on line 39 "and 33 per cent or more". It should be

only "33 per cent or more". On line 43 instead of the words "gap is due to" I should have said "the gap is responsible for."

The Chairman: I thank you very much, Mr. Clermont. Mr. Grey?

Mr. R. Y. Grey (Assistant Deputy Minister, Department of Finance): Mr. Chairman, I take it that the purpose of there being a statement at this time on the anti-dumping convention is to help place the tariff concessions which are set out in the resolutions before your Committee, in the context of the whole range of the Kennedy Round Trade Agreements.

• 1445

The Members of your Committee, understand, I am sure, from the remarks made by the Minister of Finance, that the legislation required for Canada to implement the obligation assumed by signing this convention will be put before Parliament sometime before July the 1st, the date provided for in the convention. No doubt at that time there will be scope for a detailed examination of the very many changes in Canadian law and practice.

One point I might make clear at the outset, Mr. Chairman, is that there is no technical or mechanical link between our tariff concessions and the anti-dumping convention. We did not ask for tariff concessions from other countries for the changes we were prepared to contemplate in our anti-dumping provisions. Nor did other countries ask tariff concessions from us for the changes they were prepared to accept in their procedures. The agreement on the application of anti-dumping duties is a separate agreement which stands by itself within the context of the Kennedy Round series of agreements.

I just might begin, Mr. Chairman, by explaining a bit of the rationale of the negotiation and then comment on some of the features of the code as they relate to present Canadian practice and to indicate the broad lines of the changes that will be required in that practice.

The GATT has provided since 1947 that anti-dumping duties may be applied if dumping is causing or threatening material injury to an established industry or materially retarding the establishment of a new industry.

Article 6 of the GATT, the article that deals with this subject, sets out but only in very broad terms what constitutes dumping.

It is silent on the very important matter of administrative procedures, and because of this, possibly, differences arose over the years in the procedures of different countries, and in the Kennedy Round the major trading countries arrived at the view that they should work out a new convention which would ensure some degree of uniformity in the use of anti-dumping. This has been achieved essentially by a set of procedural rules, within which all signatories are bound to operate.

To understand the impact of the code on Canadian law and practice, it is possibly necessary to consider the anti-dumping provisions which we have now. Canada was the first country to establish legislation dealing specifically with dumping in 1904, and the present anti-dumping law, as set out in Section 6 of the Customs Tariff, is in essence the same law as put before the House of Commons. Protection against dumping under this law is given producers of all goods of a class or kind made in Canada. That is to say when an imported product ruled by the Department of National Revenue to be of a class or kind made in Canada is invoiced at less than the comparable selling price for that product by that exporter in the country of export, a dumping duty may be levied equal to the difference between the invoice price and the fair market value up to a maximum of 50 per cent *ad valorem*, and this is the so-called automatic anti-dumping system.

To obtain a ruling that their product is of a class or kind made in Canada, Canadian firms must produce an amount equal to at least 10 per cent of domestic consumption of that product. It follows that no protection is given under present Canadian law.

Mr. Hees: Is that Canadian producers generally or any Canadian producer?

Mr. Grey: Canadian producers generally. No protection is given under present Canadian laws to producers who produce less than this, or are just beginning production of an article which is perhaps consumed in substantial volume in Canada. Thus, to use the GATT language if dumping is preventing an industry from being established no action is possible under Canadian anti-dumping law, although this is clearly allowed for under the GATT and it of course carried forward into the new code.

• 1450

An additional problem of all anti-dumping laws and certainly of the present Canadian law, is the problem of dumping between related firms, that is when the exporter and the importer are in some way related. This is what has been called hidden dumping or what the French call "occult" dumping. It is obviously difficult to identify because it requires going behind a transaction between firms that are related. It has often been represented to us that present Canadian law is not as vigorous in protecting Canadian producers against such dumping as is the law of, say, the United States.

Another important point is that our anti-dumping legislation does not explicitly require a formal inquiry or determination that injury has occurred to a domestic producer because of dumping. Rather, our law involves a set of general rules of law which are applied to each import transaction, and it is this lack of a mechanism for a formal inquiry into injury which has given rise to a number of complaints from our trading partners, particularly from the United Kingdom, during the past few years.

Now, during the earlier preparatory period of the Kennedy Round, there was a good deal of discussion whether the time had arrived to try to bring some order into the differing procedures of different countries and to deal with this particular problem as far as Canada was concerned. There was discussion in the preparatory meetings of the Kennedy Round, there was discussion in Paris in the Organization for Economic Co-operation and Development and finally, after a series of meetings, it was decided that there was some real possibility of negotiation a convention which would bring order into this increasingly anarchic field.

The Canadian government decided it would be appropriate for Canadian representatives to participate rather actively because without their participation there was some danger of a code developing which did not reflect Canadian views, Canadian needs, the realities of the Canadian economy, and if that happened obviously we would be under some pressure from some of our trading partners none the less to adhere to it.

Now, in the light of those comments I would like to repeat a point that has been made by Mr. Sharp, the fact that we had two particular objectives in these negotiations and

we believe that a close examination of the code and, we hope, an examination of the proposed legislation in due course will make it clear that we did achieve these objectives.

First, we wanted an assurance that our exports would not be exposed to the arbitrary use, or threat of use, of any dumping duties in other countries, and we did make positive gains in terms of protecting Canadian exports against unwarranted use of anti-dumping duties or the threat of their use in a number of other countries, the most obvious is the United States.

The second objective was that we had to be sure that under any new set of rules the Canadian government would have the clearly recognized right to apply any dumping duties quickly and effectively when dumping threatened Canadian industry, and exporters to Canada would not be allowed to dump without running the risk of incurring dumping duties in respect of the period during which the question of injury was being looked into.

Mr. Sharp has stated on a number of occasions that the government authorized the signature of this convention because it concluded, looking at this very complex instrument, that we had achieved those objectives.

Let me go on, Mr. Chairman, to comment on some of what are obviously the changes in Canadian practice that are required by the code, and I do appreciate that I am really looking ahead to the shape of what presumably will be legislation, but these do develop rather logically from an examination of the code.

As I have said before, our present law involves the application of a very complex set of general rules of law to each particular import transaction. Now, the code really reflects, an agreement by the leading trading nations that while rules of law of general application can be formulated regarding the definition and the measure of dumping, the question of injury is more a matter for individual judgment in each particular case.

• 1455

The code does, of course, set out some very broad criteria which governments are supposed to take into account in the evaluation of injury from dumping, but it remains that whether or not there is injury, whether such injury is material injury in the sense of the code, will remain essentially a matter to be decided by what one might call administrative judgment or the exercise of common

sense applied to each case before whatever body deals with this and that, I think, is the most important change in the structure of the Canadian system which the code implies.

There are a number of other important changes. As I have mentioned before, under the present law a producer must obtain a made in Canada ruling to qualify for protection against dumping. Under the code it is possible to provide this protection when an industry is just starting out which may, in fact, be when it most needs protection against dumping, and it would not be surprising if, in modernizing out anti-dumping law, we addressed ourselves to this particular issue.

Another area where an important change is required in our existing law concerns goods which are not dumped but which are causing injury to Canadian producers, and this is a case which gave rise to some questions to the Minister of Finance when he appeared before your Committee. This is frequently the case, as the Minister said, with regard to agricultural and horticultural products.

Now, under present Canadian law, action may be taken to meet this sort of difficulty by establishing an arbitrary valuation for customs purposes under certain provisions of the Customs Act. Those are 40A(7)(b) and 40A(7)(c).

Now, the real impact of such an arbitrary valuation is the assessment of dumping duties on the difference between the arbitrary value so established under this provision and the actual selling price. Of course, there is also the levying of the normal rate of duty, if there is an *ad valorem* duty, on the arbitrary higher value.

When the code comes into operation it will not be possible to use anti-dumping duties in this fashion. It is not appropriate under the code to use an anti-dumping duty to prevent injury caused by goods that are not being dumped and thus it will be necessary to seek legislation providing for some alternative but presumably equally effective device. The GATT, of course provides that countries may take such action under the provisions of Article 19, the so-called escape clause.

It will be appreciated I am sure, Mr. Chairman, that the operation of these present sections is nothing more in fiscal terms than the imposition of a special emergency tax on these non-dumped but injurious imports which suggest this sort of legislative proposals that we are bound to examine.

To go on to a further point, under our present law and, indeed, under any anti-dumping system, there are very difficult problems of law and problems of evidence of determining what is the actual price, as distinct from the stated invoice price, of goods that are shipped to Canada. This is the problem that I have called the problem of hidden dumping, and which is recognized internationally.

Now, given the very large proportion of Canadian imports that are handled through firms related to the exporters, obviously the provisions of the code which deal with the question of the reliability of the invoice price—in the code it is called the export price—are very important provisions, and they are drafted in very broad language. They are broad enough that they would enable any government to legislate to deal with this issue. That is not to say that the difficult problems of evidence often related to transactions that have taken place outside Canada will not remain.

I would like to draw attention to two other points which are perhaps more relevant to assessing the impact of these changes in law.

• 1500

Under the code a national government, called the national authorities in this document, can on their own initiate an anti-dumping investigation without having received a complaint from or on behalf of the domestic industry or the domestic producers. Thus it is open to the administrative authorities to carefully review the documentation on imports and invoice prices as a matter of routine in relation to any category of imports, and if this power is exercised it should enable any government to detect cases of suspected dumping fairly quickly. This is aside from the difficulty of producing evidence about what the actual export price is, which I do not wish to minimize.

The second point is the question of publicity with respect to anti-dumping investigations. At the present time in Canada anti-dumping investigations and decisions levying an anti-dumping duty have not been made public. They have really been regarded as matters of tax liability as between the importer and the Crown, and they are private in the same sense, relatively speaking, as questions of income tax liability. However, the code makes it mandatory that anti-dumping decisions be made public unless there are

special reasons against doing so. Under the code it is open for national authorities to make public the fact that an investigation is being launched into whether or not certain products from certain sources are being dumped. The implications of being cited in such public notices may have a considerably deterring effect on would-be dumpers into the Canadian market.

Mr. Chairman, I hope that will serve as an introduction to the question of what the implications of the proposed code are for Canada. I will do my best, with the assistance of my colleagues from the Department of Trade and Commerce, to answer any questions. We are bound to be under some inhibitions because the proposed legislation is not yet available and I am not able to say with any degree of certainty just how the Ministers will propose to Parliament that they deal with the particular technical problems which obviously arise from the code. Thank you, Mr. Chairman.

The Chairman: Thank you, Mr. Grey. I am sure the Committee understands the difficulties you are labouring under with respect to commenting in detail upon the work and progress. I will bear that in mind when I rule on whether or not questions are acceptable. I see that Mr. Macdonald, Mr. More and Mr. Cantin wish to ask questions. I recognize Mr. Macdonald.

Mr. Macdonald (Rosedale): Mr. Grey, you mentioned the other day that Article 6 of the GATT was the basic obligation, and this is just an elaboration of Article 6. Have countervailing duties not been a problem in this respect? I take it they are not dealt with by the code.

Mr. Grey: Mr. Chairman, countervailing duties are also treated in Article 6 of the GATT. A number of countries are of the view, and have expressed it in Geneva, that there should be a similar convention on these countervailing duties. However, there is the difficulty that certain major trading countries would require quite drastic legislative changes. It was also clear, considering the limitations of time, that it could not be done within the time framework of the Kennedy Round. However, there are quite a number of major trading countries that believe that this should be amongst the next subjects to be dealt with. If this convention works effectively we should then address ourselves to this countervailing duty problem.

Mr. Macdonald (Rosedale): I do not know if you are at liberty to answer this, but could you tell me what consultations you have had with customs brokers and with the importing community at large—I suppose even with the Canadian manufacturing community—about the code and its possible implications for Canadian law.

Mr. Grey: Mr. Macdonald, the fact that there might be negotiations about non-tariff barriers, speaking generally, was brought to the attention of all interested parties in the notification which was put out by the government when they established the Committee which was chaired by Mr. Norman Robertson of the Canadian Tariffs and Trade Committee. Indeed, a number of business groups and a particular firms made representations about the Canadian anti-dumping law. Some thought it ought to be modified and some thought it ought not to be modified. However, when the possibility of this negotiation really seemed to begin to materialize The Minister of Finance instructed us to consult with any knowledgeable people or experts we were aware of in the business community.

• 1505

So, there were a series of consultations. These were not opportunities for business groups to make representations but were really an opportunity, on the initiative of the government, for individuals that we were lucky enough to identify to give us the benefit of their advice. It may well be that we overlooked some people but it has been asserted to me that there was more consultation about this particular negotiation than about any other aspect of any negotiation in which we have ever taken part. There were a series of meetings in Ottawa, at which as many as 35 business people attended, on the basis of complete confidence and at which they looked at the code provisions, as they were then in existence, and they gave us the benefit of their views. Many of these ideas we were able to use in subsequent stages of negotiation, and I think this reference I am making is the only reference that has been made by anybody to the fact that these highly confidential discussions took place. There was complete confidence on the side of the business community and there has never been any public reference to them.

Mr. Macdonald (Rosedale): Have there been any discussions or consultations since the conclusion of the code, or was the subject fairly

adequately covered when the negotiations were under way?

Mr. Grey: There have been two types of consultation, Mr. Macdonald. Mr. Sharp referred to the fact that a committee had been established which was chaired by Mr. Glass, who was the first vice-chairman of the Tariff Board, which called for briefs and heard these systematically on a confidential basis.

Mr. Macdonald (Rosedale): This is a post-Kennedy Round, I gather?

Mr. Grey: This was after the negotiation of the code. Before those hearings were opened officials of the various departments concerned gave a series of confidential briefings. They were organized for business people in three different Canadian cities so that they would have some additional information as to the implications of some of the fine print in the code. One of those hearings was in Vancouver, one was in Ottawa and one was in Toronto. In one case they were attended by as few as 30 and in another case by about 120 business executives.

Mr. Macdonald (Rosedale): Thank you, Mr. Chairman.

Mr. Hees: Mr. Chairman, I wonder if Mr. Grey could give us a rough idea of the volume of complaints made against Canadians for dumping in other countries and the volume of complaints—this is just to give us an idea of the size of this—made against foreign exporters for dumping in Canada in a year? Have you any idea of the number of cases in a year? Could you in very round figures give us an idea of the volume of this sort of thing?

Mr. Grey: As to the number of complaints of foreign exporters dumping in Canada, the Department of National Revenue kept a checklist of the number of complaints during the two-month period when we were preparing for these negotiations, and, as I recall it there were some 83 complaints received by the Department, of which approximately half were found to be reasonably well founded. I do not think we have any comparable statistics with respect to complaints about Canadians dumping, although there have been a number of cases—and this is a matter of public record—in the United States where complaints have been registered with the Treasury about dumping by Canadian exporters.

The Chairman: Mr. More, I think your name is next on the list. Perhaps you would like to yield to Mr. Hees for a further supplementary question.

Mr. Hees: I just have one further question. Just to give us an idea of the time involved in that two-months' period referring to those 40-odd cases that were found to be valid and the 40 other cases that were invalid, how long did it take to make those determinations? I am wondering how long a period of examination this required. Were those done pretty well day-by-day? Could they keep up with them? The reason I ask this is that I know that Canadians exporting into other countries, and particularly in the United States market, have told me that often a complaint is placed against Canadian goods, which are style goods, entering the United States market just before the style season begins, perhaps it is the spring or the fall clothing season. By the time the matter is disposed of, the season is gone and the goods are worthless. Therefore, this rather encourages Americans, who feel that this competition might be serious for them, to lodge a complaint and simply and effectively block off competition for that selling season. I am just wondering how fair we are to other people trying to bring goods into this country. I am wondering also, how long the goods of those 40 against whom the complaints were not valid, were held up. Do you have any idea?

• 1510

Mr. Grey: Mr. Hees, we did in fact have a table prepared which showed how long it took to dispose of these cases, one way or another, but I do not have it available. If I may, I would like to comment on the question of exports to the United States. You are quite correct in saying there have been complaints about the technique which is alleged to have been used by the United States' producers in getting a complaint before the Treasury which makes these goods subject to further appraisal and since that imposes a contingent liability, it is an effective barrier to trade.

We were able to negotiate very sharp limitations on the ability of any country to use that technique. I think that is one of the two or three major gains that was made in the United States market in relation to Canadian exports. It is not possible under the code to take such action for longer than 90 days and not before the beginning of the inquiry into

injury. Therefore, it will not be possible, once the code has been implemented, for the Customs Bureau in the United States to hold Canadian exports subject to further appraisal for long periods. There have been frequent cases of this period lasting as long as six months and a few cases where it was over a year. There is a limitation of three months in the code and it is related to all the other procedures, so that that risk to Canadian exporters has been sharply limited.

The Chairman: Mr. More?

Mr. More (Regina City): Mr. Grey, in your opinion, when the code becomes operative, will it strengthen your hand in dealing with anti-dumping as opposed to the present? In other words, is it going to be moderated and lessened in keeping with the same situation in other countries on Canadian exports?

Mr. Grey: Mr. Chairman, I think, formally speaking, that is a question that might more properly be directed to the Minister. However, I do not mind making a comment on it.

The Chairman: The way in which Mr. More phrased it, I think...

Mr. More (Regina City): It is a matter of administrative techniques that might develop, that I had in mind, not policy.

The Chairman: I think you called upon Mr. Grey to give his personal opinion. Perhaps it is just a matter of semantics, but if Mr. Grey would like to answer with respect to his views on the effect of the administration of the legislation arising out of the proposed code in comparison with the present existing legislation, we could hear him.

Mr. Grey: Mr. Chairman, I think it is broadly accepted that the manner in which customs laws, including anti-dumping laws, are administered is a good deal of the whole thing. The present law could be administered with great vigour, or it could be administered very slackly and that would really determine what the effect would be. The same is true of any law that may be enacted to apply to the code. I do not think that the code inhibits Canada from having an effective anti-dumping duty where we are being injured or threatened by dumping. In one particular respect, which I had attempted to identify, the code clearly envisages that we can apply it when dumping is stopping an industry being established.

You will appreciate that industry in the code does not mean a group of corporations; it means a production of a particular article. That is an important provision for Canada whose industry is not fully diversified; it is an irrelevant provision as far as the United States and other countries are concerned who have a fully diversified manufacturing industry. This was always possible under the GATT, but perhaps there had never been an appropriate occasion before for Canada to modernize its law. In that sense, the present Canadian law was not as protective as the GATT envisaged and as is carried forward in the code.

• 1515

Mr. More (Regina City): I am not going to interpolate your remarks. What you said means that we are not vigorous in following anti-dumping. The question was raised in my mind because of the article in the *Globe and Mail* on behalf of heavy electrical firms and in the article Mr. Newell and Mr. Squires were quoted as saying that there is a strong suspicion that equipment being sold here is being sold at dumping prices and it is difficult for them to make out a case. Do they have to make a case, or does your Department, on its own, undertake to investigate cases of this kind?

Mr. Grey: There are a couple of points there, Mr. Chairman. First of all, I am from the Department of Finance and it is the Department of National Revenue that administers the present anti-dumping law. What agency or group of agencies is charged with the administration of the new law, is a matter to be decided.

The difficulty that faces this particular industry arises from the fact that the prices for many transactions are set, possibly, three years ahead of the delivery of the actual goods. They may be heavy generators or heavy transformers that take a long time to manufacture. The law is written, now, in terms of the price at the time the goods are shipped, so it is, therefore, not possible to make a determination if goods are dumped or not dumped until the actual time of shipment. But this industry—indeed it has argued to us—would be of the view that the injury occurs when they lose the contract, which they may feel is a contract at a dumped price. However, the law at the moment—the administrative authorities—cannot examine it in terms of the present price; they must look

at it at the time when the goods are shipped. The law is really quite explicit on this point.

Mr. More (Regina City): Would these large items not be subject to tender, in most cases, with the Canadian firm having the opportunity to tender at the same time as the others? This would be the circumstance.

Mr. Grey: That is right, but there is nothing in the code which would prohibit the national authorities from considering whether the supply of goods on such a tender basis, at the time the tender is accepted, would constitute dumping if the goods were imported and is causing injury because of the acceptance of that tender at that time. That is quite a substantial difference from the present law.

Mr. More (Regina City): Mr. Squires says that the new anti-dumping laws—and I suppose this is referring to the new code that is being worked out—may work against industry in Canada and he said:

we think it's going to be tougher to provide a decent dumping case.

What are your views on this?

Mr. Grey: Mr. Chairman, my views could only be personal views and they are not worth very much in this context. I do not think that is the case.

Mr. More (Regina City): I do not want, necessarily, a personal view. I wondered if, within the Department, you had a consensus in regard to that.

Mr. Grey: Quite clearly the Minister of Finance has a view and he has stated this quite clearly. I do think, Mr. Chairman, that it is much easier for Members of your Committee to form a view in this at the time they are able to see the draft legislation. The problem you have identified, sir, has been put before Mr. Glass' committee in very vigorous terms and I do not think that committee is ignoring it.

The Chairman: What you are saying in effect is that we know what the existing Canadian law is; we know what the international code is, but at the moment it is obviously premature to come to conclusions as to the exact terms of the legislation to implement the code even though we can see some trends because of what the code itself says.

The next name I have on my list is Mr. Cantin.

Mr. Irvine: Mr. Chairman, I have a supplementary to Mr. More's question. May I have permission?

I have a copy here of a speech that was delivered by the president of the company that was mentioned here by Mr. More. He refers in this speech to power generation and transmission equipment. I will quote one portion of it:

• 1520

The Kennedy Round, and of greater importance the changed Anti-dumping regulations, may lead within two or three years to the total disappearance of a large part of Canada's manufacturing capability for this equipment. Once gone it will be a long and difficult task to re-build the disbanded design and manufacturing teams.

This is very important, because this is a big industry. This runs into many, many millions of dollars annually. It would be a shame to lose it.

Thank you very much for giving way to me.

[Translation]

Mr. Cantin: My question relates to the one just put by Mr. More. The complaints which I have received from the textile and footwear industries are related to the inefficiency of the present act, and it is due to the fact that there is not enough personnel to apply the law. Could you tell me what specialized personnel there are now to apply the law?

[English]

The Chairman: Could Mr. Grey or his colleague answer this question?

Mr. Randolph Gherson (Head, U.S. division, Department of Commerce): Yes, sir.

[English]

Mr. Grey: Mr. Chairman, perhaps the most important thing to point out is that in these two industries there are few cases of dumping, but many complaints that imports into Canada are at unduly low prices. Many producers use the term "dumping" when they mean that the prices are uncomfortably low. But "dumping" is defined in Canadian law and under the code in very precise terms. These are, by and large, problems that we have called, administratively, low cost imports—that are not problems of dumping,

but where there are real problems of competition that require more adjustment than one can reasonably expect business to adapt to.

There is a group in Ottawa that deals specifically with these problems and reports to the Minister of Finance through an inter-departmental committee on which National Revenue, Trade and Commerce, Finance and External Affairs are represented. The staffing is in the Department of Finance, and the Cabinet has delegated authority to the Minister of Finance to deal with this. These have tended in recent years to be a separate problem and we have developed a group of specialized people, particularly in the case of textiles, who have acquired some expertise on this industry.

Mr. Cantin: Yes; but I have been told that this group that you mention is composed of about three men. Is that right?

Mr. Grey: Mr. Cantin, you have me in an awkward position. I am chairman of the committee that directs their work and these individuals also report to me. I am bound to say that I think, despite the fact that they are few, that they are able.

Mr. Cantin: Can we expect the new law to be more effective than the one we now have?

Mr. Grey: I have no hesitation in reminding you that the Minister of Finance thinks so; and, for what it is worth, I also think so; but that is a judgment which you, sir, can make for yourself when the legislation is available. I am not able to say when that will be, but it will be easier to make a judgment when you see the very detailed provisions that will be necessary.

Mr. Cantin: Yes. But are you of the opinion that the fact that GATT has accepted this new code will help countries to apply their own law?

The Chairman: Perhaps I should intervene here as I did previously. I do not know that it is appropriate to ask Mr. Grey for his personal opinion in this matter. If there is an official view on the domestic effects of the code—and by "domestic" I mean with respect to particular countries—perhaps he can attempt to state it.

• 1525

Mr. Grey: Mr. Chairman, I think we felt that in the negotiation there were two purposes, and it was difficult to make a judgment

between these two purposes on each particular question in the negotiations. One was to be sure that other countries, when dealing with Canadian imports that might be dumped—and Canadian exporters do dump—did not use the anti-dumping duty unless we were in fact injuring foreign producers. We did not ask for more than that, but, at the same time, we wanted to be quite sure that we could deal with the case of injury in Canada, and we had to make a judgment on every item in the code.

In recommending to the Minister that we had made a satisfactory arrangement, we thought that, on balance, we had protected Canadian exports against arbitrary anti-dumping duties abroad when we were not in fact injuring anyone by dumping. At the same time, we were ensuring protection against injurious dumping in Canada.

The answer to the latter question I have no doubt about in my own mind, but I think you will get a more satisfactory answer by examining the legislation when it is available.

Mr. Cantin: The evidence of injury will be more easy to see than at the present time?

Mr. Grey: At the present time there is no formal inquiry into evidence of injury; there is rather the application of a set of general rules of law.

A substantial inquiry has to be conducted by officers of the Department of National Revenue into the question of whether or not goods are of a class or kind made in Canada, and in conducting that inquiry they will have to be guided by the decisions of the Tariff Board, the Exchequer Court and indeed by the Supreme Court which has handed down jurisprudence on the particular question of the scope and meaning of this phrase which appears frequently in Canadian law.

There are other provisions. They have to be brought to bear to decide whether or not the goods which may be dumped then fall within the category to which anti-dumping duties can be applied. It is quite a different operation from convening some sort of board or group of people to examine the economics of production of a particular article and to decide whether or not the impact of dumping causes injury, or threatens injury, or is perhaps stopping that article from being produced. It is a different sort of operation.

The Chairman: It may assist the Committee if I draw to its attention the fact that on page

47 of the July 1, 1967 issue of *Foreign Trade*, an official publication of the Department of Trade and Commerce, the following statements are found. First:

Canadian exporters stand to gain by an assurance that our exports will not be exposed to the arbitrary use of anti-dumping duties by other countries.

Then the article goes on to say:

The Code provides that Canada—as other countries—has the right to apply anti-dumping duties quickly and effectively when dumping injures domestic producers, threatens injury, or retards the establishment of an industry.

I suppose it would be fair to say that this could be taken as an official governmental view. Mr. Cantin?

[Translation]

The Chairman: I will now give the floor to Mr. Clermont followed by Messrs. Irvine and Lind.

[English]

Mr. Clermont: Mr. Chairman, I would like to have Mr. Grey's comment on the following:

Anti-dumping provisions in the existing tariff structure, and particularly those approved under the Kennedy Round, afford little protection because the definition of dumping is usually taken to mean that the exported product is sold at a lower price than it is at home. Canadian "value-for-duty" provisions are also of little value because of the government's reluctance to use them and the delays in applying them. The effectiveness of this special provision will be even less when the stricter rules coming out of the Kennedy Round are applied.

Mr. Grey: Mr. Clermont, there has been some confusion of a technical kind in the business community in the use of the same base for valuing goods for anti-dumping duty and for regular customs duty. That is the practice under present Canadian law. The code does not talk about the regular value for duty. Most countries value goods for regular duty on a c.i.f. basis whereas we use an f.o.b. basis, which is very close to the concept of the value of goods in the home market. The code embraces a completely different concept. It talks about the margin of dumping, which it says is the difference between the value of the goods as sold in the home market, or, if

they are not sold there—perhaps because it is an export product and sold to some third country—their cost of production and the export price, and has rules about how you find what is called in code the normal value and then what you do about determining whether the export price really is the export price. The distance between these two concepts is the margin of dumping.

• 1530

This is really quite a different concept than we now have in Canadian law and I think the fact that it is so different has given rise to some confusion and again, this is a matter which will be clear only when the legislation is before members of the House, because in the legislation it would not be surprising if we use the language of the code which talks about the margin of dumping and addresses itself to a determination of both ends of this measure.

On the question of what is the export price which, for Canada, is a very important consideration, the code leaves it almost completely up to the national Government to make a determination when the transaction is between related firms and that, I suspect, involves more than half the imports into Canada. So what we do about this is not a question, really, of what the code says but what the Parliament of Canada is prepared to legislate. It is not the code which will inhibit us in this matter.

Mr. Macdonald (Rosedale): Mr. Chairman, while we are talking about pricing, I wonder whether I could interpolate a question here? It has come to my attention that in the importation of electronic tubes into Canada from one of Canada's trading partners the industry in the foreign country does not publish any domestic price list, so there is no fair market value from which to determine it. I am wondering whether, for the purpose of determining margin of duty, there is any obligation imposed under the code on the exporting nation to make the information available to the Canadian authority so that this determination can be made.

Mr. Grey: Mr. Macdonald, there is no obligation imposed on the exporting nation but it is fairly clear in the code that in order to carry out its obligations under the convention governments have to have certain information and there are time limits provided in the code. Therefore the code says that if people

do not provide the information, then governments must make their decisions about the application of the duty, the measure of the margin of dumping and the question of injury on the basis of the information they have.

It seems to me this clear right of all governments set forth in the code will produce quite a profound change in Canadian administration. We do have a situation now in which many exporters and sometimes even their governments are reluctant to provide the information because they feel that our system is a bit out of court. Under the convention we are required to operate within certain time periods and if they do not provide the information then we are allowed to make the decision on the basis of the information available. I think that puts the onus of providing information on them once an investigation is under way. It puts them under a certain pressure to give the information.

Mr. Macdonald (Rosedale): Failing which they take the consequences of perhaps an arbitrary determination. Perhaps this is more a representation than a question. May I suggest that when the time comes to draw up these regulations there might be a stipulation in the Canadian law that the information as to fair market price in the exporting country or other relevant information be made available as a condition for import. That is a representation and not a question unless you want to comment on it.

Mr. Grey: You can be sure that point has not been overlooked.

[Translation]

Mr. Clermont: Mr. Chairman, I would like to put the following question to Mr. Grey. I think that a certain number of parties involved in the Kennedy Round negotiations, among them Canada, have accepted that they are committed to the new anti-dumping code, which links the imposition of special duties to the national injury by dumping, rather than the dumping itself. If so, what would be the advantages for Canada to be bound by such a regulation?

Mr. Randolph Gherson (Chief, United States Division, Dept. of Trade and Commerce): Mr. Chairman, I would be very pleased to answer Mr. Clermont but I would like to ask him if, his question refers to exports or imports?

• 1535

Mr. Clermont: Exports.

Mr. Gherson: Mr. Chairman, I think it is quite clear, according to what Mr. Grey has just said, that in fact the protection guaranteed to us by the regulations will in the future be efficient enough.

Mr. Clermont: Would there be any difference if this were to apply to our imports?

Mr. Gherson: What kind of difference?

Mr. Clermont: In the question I am asking you.

Mr. Gherson: I am sorry, I do not understand your question. You are asking if there is a difference.

Mr. Clermont: You asked whether my question referred to imports or exports. Would your reply be different if it related to imports?

Mr. Gherson: No, sir.

Mr. Clermont: I beg your pardon?

Mr. Gherson: Does this answer your question?

Mr. Clermont: No. I would appreciate it if you would continue.

Mr. Gherson: With pleasure. What I wanted to say is that in fact the code gives us an effective way of protecting our exports because it stipulates the modality and criteria that the countries with which we trade must observe. For instance, Japan and the European economic community did not have any internal code on dumping. Now that a code has been negotiated for the European Community, the Community itself will have to take it into account. This will result in some kind of uniformity in the application of procedures in the laws on dumping. In this way we are protected. As Mr. Grey said a few moments ago with regard to the United States, we have gained provisions in the code which will allow us to eliminate a certain uncertainty which was developing within the present procedure and which may affect our exports.

Mr. Clermont: Thank you, Mr. Chairman.

The Chairman: Thank you, Mr. Clermont.
[English]

Now I recognize Mr. Irvine.

Mr. Irvine: Mr. Chairman, I would like to ask Mr. Grey a question and perhaps I did

not word my supplementary to Mr. More very thoroughly. I thought perhaps you might comment on the item that I mentioned in the address that was given by the president of the firm mentioned in this newspaper clipping.

The Chairman: To help me as Chairman, if not anybody else, perhaps you might tell us exactly what firm this is.

Mr. Irvine: It is the Canadian General Electric Company.

The Chairman: And the exact range of products he was referring to.

Mr. Irvine: This related to power generation and transmission equipment and the statement that he made which I mentioned a few moments ago is:

The Kennedy Round, and of greater importance the changed Anti-dumping regulations, may lead within two or three years to the total disappearance of a large part of Canada's manufacturing capability for this equipment. Once gone it will be a long and difficult task to rebuild the disbanded design and manufacturing teams.

Mr. Grey: Well, Mr. Chairman, the author of that particular statement did give us the benefit of his really very expert views on this matter in the course of the negotiations and subsequently, and the problem that he identified for us really was a most important one. He pointed out that heavy electrical equipment as produced by his Company and certain other producers in Canada often is purchased in other countries such as the United Kingdom by state agencies which may apply a highly restrictive purchasing policy. In Canada they are often purchased by provincial utilities—private utilities—and if the goods are dumped one might say it is a rather different matter to apply anti-dumping duties to the provincial government that it is to a private importer. That may or may not be an important difference but I believe Mr. Smith would think it is. Therefore, there is a certain imbalance in the anti-dumping code regarding this particular product because of the nature, the character, of the customers to which he sells. He did give both the Department of Trade and Commerce and the Department of Finance some detailed information on particular transactions or attempts to sell which bore out this particular case.

• 1540

Sir, I would suggest that the word "may" in his statement is a very important word. He is telling us, really, that if we do not take care to deal with this particular problem it could have an important effect on his industry. He has given us the benefit of a great deal of information and so have other officers of that particular corporation. I think the only real answer to the worry he is expressing there, which I do not wish to minimize at all and say it is unimportant, is to look at the proposed legislation and, even more, how it is applied. None of this, by way of reply, is intended to suggest that that is not an important issue. It arises not only out of our anti-dumping law and what changes we may make, but the procurement practices of state-controlled agencies in other countries. I do not think that is entirely clear from his statement. In speaking to us, Mr. Smith has made that quite clear and it is a point to which ministers and officials have certainly attached a great deal of importance and we have already made representations reflecting Mr. Smith's concern to certain other governments.

Mr. More (Regina City): Mr. Chairman, I have a supplementary. In many cases, too, this equipment is desired and they are precluded from bidding on the contracts whereas Canada is pretty open.

Mr. Grey: That is quite correct.

Mr. Irvine: Mr. Grey, if I could give evidence or, if a manufacturing firm should register a complaint of what they consider to be dumping, let us say, merchandise sold at a price lower than it would be sold in the country of manufacture what would then happen? What is the machinery?

Mr. Grey: The present machinery or the projected machinery?

Mr. Irvine: Can we talk about the projected machinery?

Mr. Grey: Mr. Chairman, I do not see why I should not go as far in a hypothetical way before the Committee, as I have gone in talking to various business groups. I think that broadly speaking we have envisaged that the customs department—the Department of National Revenue and their customs Branch—are the logical people to investigate the question of whether goods are dumped or alternately by how much goods may be dumped? That is a question of which the

evidence is really in import documentation and it would be wasteful to think of another agency doing essentially the same job. Who, then,—if it is determined that certain goods are dumped—should determine whether that dumping is injurious or threatens injury, is a question to be decided. What the code makes clear is that there are certain procedures you must follow in making that determination. You must have hearings, you must give notice and so on. Of course the code, as it covers all countries, does not say how you do this within your administration in terms of locating the agency. That is a question to be decided.

Mr. Irvine: I have a particular case in mind here that has to do with the O-Pee-Chee gum company. This might sound like small business but it is actually big business. They had what they thought was a case of—something to chew on anyway—they thought it was a case of dumping. Now, it was duly reported and investigated but the statement they gave me was by the time they received a report it was too late; the market had been flooded. Does this sound reasonable?

• 1545

Mr. Grey: Mr. Chairman, there are several difficulties about answering such a question. I will do my best to answer it except that first of all the question of the actual outcome of the dumping investigation arising from a complaint by a Canadian producer is a matter under present law that is confidential between the importer and the crown and therefore even if I was an official of the Department of National Revenue, which I am not, I do not think it would be proper for me to speak on the outcome of such a case. The fact that such investigations are confidential does often mean under the present system, as distinct from the projected system, that the complainant is not aware of the outcome of a particular case. This often leads to a belief that the case has not been dealt with when it may in fact have been dealt with in a manner he would regard as satisfactory. Now, that will be changed because we are required to give publicity to decisions. I do not think I can really say much more about it but identify how this sort of case will be dealt with slightly differently in a very important respect. Whether or not in that case there actually was dumping, I do not know, and even if I did know, I do not think under the law I could say so.

Mr. Irvine: I do not want to ask questions that are unfair, and that is not the point. I wanted to get some information here that might be of assistance. I would like to know this and, maybe I am incorrect in directing this question to you, Mr. Grey, but is there no way this could be checked before the actual distribution of the merchandise takes place?

The Chairman: You are talking about under the existing law?

Mr. Irvine: Yes, under existing or under future law. If this has been amended to cover that then it would be of interest.

Mr. Grey: Well, under the present law there are provisions in the statutes about how far back a dominion customs appraiser, whose position is set out in the terms of the statute, or the Deputy Minister of National Revenue. He can go retroactively in levying duties. There are also very important rules in the code about this. What it amounts to in the code is that if a determination is made that the import of goods has been injurious, one can go back 90 days from that decision. I am simplifying the provisions. If the dumping was in large quantity in a relatively short period, and the injury really arose out of the fact that there was a very large importation at a dump price—given that the determination had been made that it was dumping which is a very technical matter—an additional 90 days of retroactivity is provided for under the code. It is not a question of holding up the goods in customs and examining whether or not it is dumping and whether or not it is injurious; but it is a question really of allowing the goods to be sold, but beginning an inquiry and having the right to go back, for certain fixed periods under very carefully defined circumstances, to levy the duty. Now, you appreciate, sir, that such rules as we may have wished for Canada, to deal with a multitude of transactions and, perhaps the inability of a customs officer at a particular place to act sufficiently quickly to catch it in time, could be used by our trading partners against Canadian exports. A judgment had to be made as to the rules which gave protection against injurious dumping in this aspect and also the rules which protected us against harassment. This 90 days provision, plus an additional 90 days where the dumping was massive, is the arrangement that was made. I assume this will be carried forward into Canadian law. I think it is a matter

of fact that under present administration customs rarely goes back for more than 90 days even though under certain circumstances they have the legal right to go back further. You will appreciate that going back for more than a certain period is a very punitive device.

Mr. Irvine: Then, according to the way I understand it, if this firm were found guilty of dumping and a complaint were laid, and they went back, shall we say, for a 90-day period, what would happen? Would additional duty be levied at that time?

Mr. Grey: Additional duty could be levied equal to the margin of dumping. Under present law it is up to 50 per cent *ad valorem*. There is no such limit in the code.

If I may say, and this is perhaps not the point of your question, dumping is not an offence; it is just a risky business. You used the word "guilty".

Mr. Irvine: Yes.

Mr. Grey: Now, in the code there was much resistance to the suggestion that dumping was an unfair practice, while agreement that one could impose certain risks on such practice.

• 1550

Mr. Irvine: In other words, it was all right if they could get away with it?

Mr. Grey: It is all right if it does not injure anybody.

Mr. Irvine: I understand—and I believe Mr. Macdonald brought this subject up—that in October of 1967 a series of meetings of the anti-dumping committee were held and I believe that Mr. Glass was in charge of that committee. I think you made the statement that these were confidential meetings. The briefs that were received were not given to the press and they were not distributed to Members of Parliament, and so on, is that right?

Mr. Grey: The rule was that the groups that appeared before that Committee could make their briefs public if they wished. The government did not make them public. The groups were also free to repeat what they said orally but they were not free to say what the members of that committee asked them about or observed about their representations.

Mr. Irvine: The meeting was held in camera.

Mr. Grey: Yes. I think that only one organization chose to make its brief public or to make any comment on it.

Mr. Irvine: Do you recall if there were quite a number of submissions? Roughly, how many were there?

Mr. Grey: Mr. Drolet, who is sitting behind me, says there were 60-some odd briefs. You will appreciate that most of these came from trade associations that represented many firms.

Mr. Irvine: So you feel that the submissions that were presented were worthwhile, that it was very profitable as far as this committee was concerned?

Mr. Grey: I felt they were very profitable worthwhile and they gave us a great wealth of technical information about the implications of the code for particular types of transactions, and I believe that Mr. Glass so reported when he made his report to the Minister of Finance at the end of these hearings.

Mr. Irvine: Were any changes or recommendations made to the new code as a result of these hearings?

Mr. Grey: Mr. Chairman, it is not a question of making changes to the code. The code is an international instrument, some of which is in very general terms and governs all countries, but the ideas that we heard in this committee will most certainly be reflected in the Canadian law which will implement the code, which will put the code in the context of Canadian law.

Mr. Irvine: Thank you, Mr. Chairman.

The Chairman: I now recognize Mr. Lind, followed by Mr. Hees and Mr. Saltsman.

Mr. Lind: Mr. Grey, I understood you to say a minute ago that you were the chairman of the committee that made final decisions on—

Mr. Grey: On low cost imports.

Mr. Lind: On low cost imports. I want to deal with this subject of low cost imports.

The Chairman: I think we should first clarify exactly what this committee does. Does it make recommendations on policy, administer some legislation, or what? Perhaps

some members of the Committee may have too expanded or too narrow an idea of what this committee does.

Mr. Grey: Mr. Chairman, this is a committee that was set up at the direction of the Cabinet to deal with requests from Canadian industry. The government asked certain foreign countries that export to Canada to limit their exports to Canada, but no legislation is involved and this committee has no formal administrative standing. Many years ago the problem of dealing with this issue was delegated by the Cabinet to the Minister of Finance. The policy was laid down by the Cabinet and it is interpreted by the Minister of Finance, but there has to be a group of officials somewhere who do this purely detailed statistical work. That group is in the Department of Finance but it reports to an interdepartmental group, and purely by custom one officer of the Department of Finance is usually the chairman. That Committee reports to the Minister of Finance and seeks his guidance with respect to the terms in which a discussion can be conducted with the representatives of an exporting country, and it deals by definition with products which have been found to be not dumped.

• 1555

Mr. Lind: As I understand it, one of the problems that you may have to contend with is lower cost products being dumped on the market. Perhaps a manufacturer has a large quantity of substandard products that he does not wish to distribute through trade in his own country and he takes this means of putting it into the Canadian trade. How do you judge that you are getting first class and not substandard merchandise?

Mr. Grey: Mr. Chairman, that has not been a problem which has been dealt with by the committee to which I referred. There is a provision of the Customs Act under which I believe the Minister of National Revenue may prescribe the technique by which such goods are valued for regular duty and, under the present system, also for the purpose of determining whether or not they are dumped.

Mr. Lind: Do you run into this fairly often with substandard products?

Mr. Grey: It has been represented to us by spokesmen for the textile and garment industries that on occasion there are significant offerings of such products. It has not been a

problem, sir, that I have dealt with myself to any extent at all and therefore I am not really in a position to be very informative about it.

Mr. Lind: There is nothing in the code to govern this?

Mr. Grey: For the purposes of the code they are not distinguished from other products. If there is a question of whether substandard goods are being dumped the same rules of determining dumping are applied to them as to other products. They are not referred to explicitly, but they are not treated in any other way.

Mr. Lind: But you consider it as an FOB delivered price in Canada when you are figuring your anti-dumping duty?

Mr. Grey: Well, sir, the question is one of measuring the margin of dumping. It is the difference between the home market value, if there is one—which I think is the point you are making—and the price to Canada. If those substandard goods are not sold in the home market, which is the sort of case which is sometimes complained of, then their normal value can be taken by reference to the sale in the home market of similar merchandise, or alternatively their cost of production, or alternatively their price to a third country, but these rules apply to all products.

The Chairman: Mr. Hees?

Mr. Hees: Mr. Chairman, I would like to ask Mr. Grey this question. Suppose I am a Canadian manufacturer of heavy equipment and one of my salesman has sent in a report that there has been an offer made to a client that he is trying to sell some foreign-made equipment at a price that he believes is a dump price. He does not know, but it is sold much lower than anything else that has been quoted from that country and he believes that there is something wrong. He reports to me and I then get in touch with my agent in that foreign country to find out what machines of that size and kind have been quoted at there. I am convinced from what I hear that it is a dump price. It is important that that sale be stopped. Otherwise when the machine is installed, no matter how much it has been dumped or not dumped, the person who has bought it, is not going to take it out of his factory and ship it back home.

What is the procedure I should follow when I get the information from my foreign agent

that convinces me it is a dump price? Under this new procedure what should I do?

Mr. Grey: Well, Mr. Hees, there is nothing in the code that says that a government cannot initiate an investigation into dumping, but it has to wait until the actual import has taken place. It obviously cannot levy the anti-dumping duty on an import until the import has taken place, but if it finds evidence of dumping it can look into this.

Mr. Hees: What information must I provide with my initial complaint to start the ball rolling? Do I have to provide an invoice from the country from which the machine came, demonstrating that it is below that price, or what do I have to produce? What do I do?

• 1600

Mr. Grey: There is nothing in the code, Mr. Hees, that lays down any rules on it. It is a fact that certain other countries, notably the United States, do have formal documents that could be filled out by a complainant. The code says that you can initiate an investigation into dumping on a complaint at the request and on behalf of the domestic industry affected or, in special circumstances, the government can do it itself. It lays down no rules concerning what is a complaint and what is a request.

Mr. Hees: How quickly would the Department of National Revenue work? Can you give us some idea of that? How quickly would we start getting an investigation going?

Mr. Grey: I do not think I can answer that question, Mr. Hees, either about the present, because it involves confidential relations between importers and the Crown, nor can I really predict what they will do in a department for which I have no responsibility. All I can really say is that the code does not prohibit them acting quickly.

Mr. Hees: We just have to hope that they would.

The Chairman: I understand that the context of our discussions with Mr. Grey and Mr. Gherson are really sort of exploratory.

Mr. Hees: I have another question, Mr. Chairman. Suppose I as a Canadian manufacturer launch a complaint; the price at which the goods are quoted is considerably below that quoted for similar goods in the home market. However, the manufacturer in that

foreign market can show that the price he is quoting in Canada is the home market price less certain taxes which have been rebated to him by the home government which makes a very considerably lower price than the nearest thing sold on the home market. What can we do about that?

Mr. Grey: The code says that in deciding whether or not goods have been dumped—that is, determining what is the margin of dumping—you can make a true price comparison between the price of the exported product and the imported product. Allowances should be made for the differences in taxation.

Mr. Hees: I see. So therefore, the goods have to be offered in Canada at the same price they offer them on the home market. The home government is not allowed to rebate taxes that are not charged against goods that are sold at export?

Mr. Grey: I think there would be no question, Mr. Hees, because it is in the context of the general agreement which has other provisions—and indeed, Article 6 has a provision on this—that if you were talking of Canadian goods exported which did not bear sales tax—let us say this is a product which is subject to sales tax—the exported goods are not subject to sales tax in the Canadian system. That would not attract dumping duty either in the Canadian system or in other systems and to put dumping duty on simply because of that would be a contradiction of GATT.

Mr. Hees: Is that sort of in the code of rules?

Mr. Grey: That is in the GATT proper; it is in Article 6.

Mr. Hees: A rebate of sales tax is allowed. Are any other taxes allowed to be rebated?

Mr. Grey: I think one of my colleagues has a copy of Article 6 of GATT. I would prefer, Mr. Hees, to give a precise answer on this.

Mr. Hees: Yes.

The Chairman: I think Mr. Burns has the document here.

Mr. Grey: Mr. Hees, the relevant paragraph is paragraph (iv) of Article 6 which reads as follows:

No product of the territory of any contracting party imported into the territory

of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes.

Mr. Hees: So, your price can be just a straight cost of production less any taxes except the ordinary corporation profits tax, I suppose.

• 1605

Mr. Grey: Mr. Hees, the operative phrase is "duties or taxes borne by the like product". It turns on what the GATT means by the word "borne".

Mr. Saltsman: That is probably the objection the United States is raising against some of the ECC countries; that they are, in effect, doing this.

The Chairman: I do not know if that is a question, Mr. Saltsman, or an observation.

Mr. Saltsman: It is a question, I guess, in line with what Mr. Hees has to say.

Mr. Grey: I am not aware that it has been suggested that, say, goods exported by France or Germany under their new added value tax system would be liable to dumping duty or countervailing duty by reason of the refund of such added value tax. If the refund was more than the tax actually being borne by those goods that is a question of calculation to the extent that if it was more it would raise the question of some countervailing action.

There have been some cases in the past where countries have rebated taxes not borne by the goods, or have rebated, under the guise of such a rebate, an amount greater, and there have been difficult international issues. The GATT, I would like to point out, does not say that such rebates should give rise to countervailing or anti-dumping duties. This provision says that no dumping duty or countervailing duty shall be applied for that reason. It does not go on to say that you are free to apply countervailing or dumping duty in a different circumstance; it is silent on that subject.

The Chairman: Do you have any further questions, Mr. Hees?

Mr. Hees: No.

The Chairman: Mr. Saltzman?

Mr. Saltzman: Thank you, Mr. Chairman. Mr. Grey, the dumping legislation that is being proposed presumably will be cause for governmental concern only if injury to domestic manufacturers can be proven. Is this a correct assumption? In other words, dumping could take place provided injury did not take place to domestic producers and it would not be considered of concern to your Department.

Mr. Grey: There are three cases, Mr. Chairman: that material injury was caused; that material injury is threatened—the United States law is “is caused or is likely”, threat simply refers to time—or that the dumping is preventing an industry from being established. Industry, in this context, means the production of the identical product as is being dumped. It does not mean a set of corporations; it means production in a physical sense.

To go on to a further point, you used the word “proved.” The code does not raise the question of proof. It means that governments accept an obligation that they will not levy a duty unless they are satisfied that one of these three things has occurred, that there is a threat or that material injury occurred, but the code does not put the onus of proof on the domestic producers.

Mr. Saltzman: I am thinking in terms of injury to a traditional supplier from another country, where perhaps there is no domestic consideration of the development of that kind of product. Is there anything in the dumping proposals that would take this into account?

For instance, we may have a traditional supplier of certain types of merchandise; there may be an international price war in this particular product where another foreign country may want to pre-empt the market. Can any action be taken to protect a traditional supplier?

Mr. Grey: Well, the code does provide rules for application of anti-dumping duties in these circumstances to protect the interest of a third country. But the code does not require that all governments do this. It sets forth really very stringent rules for the application of this unusual power. Canada has not had such a feature in its anti-dumping law; other countries have had.

Mr. Saltzman: I am thinking in terms of the offshore oil imports to Montreal where the

domestic producers do not go beyond the Ottawa line. Therefore, that market is being served by oil producers in other countries. Now, we have had a number of cases in the past of alleged dumping of oil products on the Montreal market and the Canadian Government has taken action against this type of dumping. There is no evidence in those cases that the domestic producers were being hurt because oil was not shipped into that area by Canadian domestic producers. What is the position regarding a case like that under the proposed legislation? We know what it is under the existing legislation; they have taken anti-dumping action. Will they continue to take anti-dumping action?

• 1610

Mr. Grey: Well, Mr. Chairman that is a really very complicated question which is remarkably difficult to answer in the abstract. There are two aspects of the code and their subsequent carrying forward into Canadian laws; if it was decided to carry them forward. The first would be the question of whether or not it falls within the regional definition of an industry; whether or not it is deemed that Canadian producers do not sell in the particular area where two foreign countries are competing, possibly one by dumping.

There is also the question of whether or not we carry forward into Canadian law, the power to protect a traditional supplier against dumping by another country.

Mr. Hees: I think I could answer Mr. Saltzman's question as I had some experience with that some years ago. First of all, I do not think there is any evidence that the Venezuelan oil coming into Montreal is dumped in any way. It is sold.

Mr. Saltzman: Venezuelan oil is protected in the Montreal market. They are the ones who are now protected. I am thinking of offshore oil coming, or offshore naphtha, for instance, coming from some of the Iron Curtain Countries. There has been attempted dumping of naphtha and oil into the Montreal market and an imposition was made on them.

Mr. Grey: This is correct.

Mr. Hees: And you feel there is evidence that that latter oil you mentioned is dumped at lower than home prices?

Mr. Saltzman: Well they argued that is was not dumped but there was a ruling made that

it was dumped. I do not really know the truth of the matter.

The Chairman: It is a difficult thing to comment on if it is correct—and I think it is—that it is a matter of confidentiality between the Crown and the importer whether any ruling was made.

Mr. Saltsman: I think it is public knowledge. I think this is known because there was a case of this gasoline being sold by retailers and I think some action was taken on it, so it is public information.

Mr. Hees: With regard to Venezuelan oil competing with Canadian oil, I know something about that, at least at the time that I was dealing with it. It was a fact at that time if we forced the Montreal market to handle Canadian oil instead of the Venezuelan oil, the disadvantage would have been that it would have raised the price of gasoline in that whole area about 5 cents a gallon to the consumer. And it was not felt that this would be acceptable in any way.

Mr. Saltsman: Although the former minister was responsible for national oil policy I do not think this is the place to get into a discussion about policy.

Mr. Hees: I just thought you might be interested.

Mr. Saltsman: I raised this question because there seems to be some undertaking that the oil we ship into American markets which displaces Venezuelan crude will be taken in at the Montreal market. There is some kind of a saw-off on this arrangement. Under this provision the dumping legislation applies only to injury of domestic producers and I do not think domestic producers are really involved here; we are really talking about international arrangements. The question I would like to ask is, to what extent are we going to protect these international arrangements that have been made? I mean these international arrangements are made among the oil companies in the various countries, in which they determine where oil will go and under what conditions.

Mr. Hees: Well it is just about as simple as this, that by and large whatever we exclude from the Montreal market from Venezuela the United States would exclude going across the border in Western Canada into the Western United States market. It is just as simple as that.

Mr. Saltsman: Well I am glad to hear you say that. It has never been put quite that bluntly.

Mr. Hees: Well I thought you might be interested in the cold, bare facts of the case.

• 1615

Mr. Saltsman: Yes.

The Chairman: Do you have any supplementary comments on this relevant to the work under way to implement the code?

Mr. Grey: On the assumption that seems to be unreal that we are dealing with a hypothetical case. There is a section in the code that deals with anti-dumping action on behalf of a third country and there are some quite stringent provisions. One is that the application to invoke the anti-dumping duty in this case must be made by the authorities of the third country; it has got to be an inter-governmental question. It remains the option of the importing country whether or not they do it; there is no mandatory requirement that they do it. The whole provision is one that like the whole of the anti-dumping provision is not one that governments are obliged to apply. Though in effect we are signatories of the code, we are not required to have a provision in Canadian law that enables us to act to protect a third country. I cannot therefore comment at this time on whether or not such a provision will be in the legislation, but merely point out that this part of the code is not mandatory; it is permissive.

In the type of case you mentioned there is also the problem of how you determine the margin of dumping on goods that are imported from a state-controlled economy. And there is another provision of the code which bears on this and its import is not perhaps so obvious it says:

This Article is without prejudice to the second Supplementary Provision to paragraph 1 of Article VI in Annex I of the General Agreement.

And if you look that up you will see it says that imports from a state-trading country may be valued by reference to imports from an open-market economy. It does not say it quite as bluntly as that. That is the system we now apply, and there is no change in that connection, except of course such imports when valued on this basis—when the margin of dumping is found on this basis—must also

be the subject of an inquiry into injury or threat of injury.

Mr. Saltzman: Well the whole purpose of dumping legislation is to protect the national interest, and in this particular case domestic manufacturers. Otherwise, I would presume that we would not be concerned about dumping since it benefits the consumer. If it benefits the consumer, and does not harm national industry, it is not our concern, normally speaking. So I am merely saying the purpose of anti-dumping legislation is to protect what we consider our national interest. If we do not have any national interest in a certain product, in terms that we do not have producers in a certain market, then presumably we are not concerned about the price at which goods are dumped into that market.

Mr. Grey: Well there has been a provision in the GATT since 1947, I think, envisaging the use of anti-dumping duties to protect additional suppliers even where there is not an industry in the country of importation. Well I do not want to get into discussion as to what our interest is. It is true that internationally it has been accepted that this is a proper use of anti-dumping duties. But it has been limited by rather more stringent rules. Now, this is carried forward into the code and there are procedural rules about this kind of anti-dumping duty, but that whole section of the code is permissive. A government is not required to enact within the framework of its anti-dumping legislation a provision enabling it to use anti-dumping duties in this way. But at least the GATT envisages a greater role for anti-dumping duties than you have formulated.

Mr. Saltzman: If for instance some country wished to sell their oranges at one-third of the price that they had in the past—we are not producers of oranges—would there be any objection to their dumping oranges in the Canadian market?

Mr. Grey: I do not wish to comment on a hypothetical case but perhaps I might observe that when it was believed by Canadian producers that the U.S.S.R. was dumping aluminium in the United Kingdom, we did have a national interest in asking the United Kingdom to do something about it.

Mr. Saltzman: What action did the United Kingdom take in that case?

Mr. Grey: Am I at liberty Mr. Schwarzmenn to say what the United Kingdom did? I

believe I am correct in saying that they negotiated a quantitative limitation, with the U.S.S.R.

The Chairman: I suppose if the traditional supplier is hurt by this action by a third country, he would be less likely to be in a position to buy our goods. This is probably an implication that could lead to a country like Canada or the United Kingdom taking advantage of opportunities under the GATT. Am I right in suggesting this?

Mr. Grey: That appears to be the foundation of this provision in such circumstances.

Mr. Saltzman: I would like to put a question to you regarding class or kind manufacturers in this country. Under the present provision they have very definite knowledge, if they have been designated as an industry that has 10 per cent of the Canadian market of a certain class or kind. They have definite protection in terms of dumping. There are legal definitions of what constitutes dumping. They do not have to prove injury or anything along that line.

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Under the new provisions those legalistic protections will be removed and they will have to prove that damage actually has occurred. Now, it seems to me that to try to prove that an industry has been damaged is virtually an impossible task because you have to ask the questions have they been damaged in the short run; in the long run; have their prospects been diminished—this is going to be an extremely complicated thing. Those kind of manufacturers may feel that their interests are not going to be as well protected under the new legislation or the new provisions as they were under the old. Could I have your comments on that?

Mr. Grey: Mr. Chairman, I observed before that there is nothing in the code that says an industry must prove it has been injured. The code talks in terms of national governments levying anti-dumping duties only in certain circumstances. There is no onus of proof applied in the code on producers. There is a responsibility placed on governments who have the power to levy the duty, and that is quite a different matter.

Now, I could not disagree that it is a difficult matter; it is a complex matter. The code really reflects the judgment that that kind of decision cannot be made effectively by the

application of a set of complex general rules under the direction of the courts, but it is met or made by some kind of administrative tribunal, but with open hearings and some kind of public scrutiny.

Now, it may be difficult, but the United Kingdom and the United States have had such systems for some time and I find it hard to accept that it is beyond the wit of Canadians to be just as ingenious as the United Kingdom and the United States.

Mr. Saltsman: In the event of a difference of opinion between the government's assessment and the industry's assessment how is this going to be resolved?

Mr. Grey: Mr. Chairman, in the United Kingdom and the United States there is no channel of appeal from the decision whether or not there is injury. In the United Kingdom it is made by officials of the Board of Trade who so advise the President of the Board of Trade—that is a government department. In the United States it is made by the United States Tariff Commission under procedural rules enacted under the Anti-dumping Act which provide for hearings and a fairly elaborate machinery which ensures that all parties have a hearing, but there is no technique of appeal except through the political process.

Mr. Saltsman: You indicated that in the United States the time that goods can be held up is going to be reduced from a six-month period to a three-month period. If we go back to some of the goods I believe mentioned by Mr. More, textile and garments, three months is much too long a period of time. If they are held up for three months it means that an entire season is over because there are four changes a year in many of those industries.

Mr. Grey: I think there is some misunderstanding here. "Held up" is not the technique; they are allowed to clear customs but they are subject to further appraisal, so that there is a sort of contingent liability for duty.

Mr. Saltsman: They can be delivered to the customer subject to this contingency?

Mr. Grey: Yes. The United States customs do occasionally hold up goods, but not for this reason, under different legislation and for different purposes. All customs authorities may decide to hold goods if they believe that fraud is involved. I mean reasons of that kind.

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Mr. Saltsman: In your investigation of dumping legislation, have you considered the possibility of advance licences where an importer would indicate he is prepared to buy certain kinds of goods and try to get advance approval from you for the clearance of those goods, or to get some knowledge of whether those goods can enter without a dumping duty on them? Under other provisions, for instance, I believe exporters can apply in advance to the Department to get some rulings on machinery.

Mr. Grey: Under the present system the question of whether or not goods are dumped arises in relation to the price of goods sold in the home market at the time and place and by the same exporter as when the goods shipped to Canada. So, while the Department may give—and this is only the advice I received from a Department in which I have never worked—informal advice to an importer, that advice cannot in law bind the Department because the law is written in terms of the time the goods are shipped.

The question of whether it is possible to build into the new legislation some technique of giving importers some assurance really is a very difficult one. It is a general question of tax law, the question of making decisions about the liability to the Crown in hypothetical circumstances. Tax lawyers can write books on the legal problems; the decisions about hypotheses.

I do not think I can answer it, but I would say that we are addressing ourselves to this problem.

Mr. Saltsman: From a business point of view the important decision has been made at the time the contract is negotiated. Increasingly now business is ordering far in advance of their requirements—this is a necessity of business today—and they are buying at the price prevailing at that time. It would seem very unfair for business to enter into negotiation or into a contract and then find that at the time of selling—this could be three months later, or six months later, or three years in the case of electrical goods—they are going to be subject to dumping duties because of market changes even though they may have negotiated a very favourable contract or agreement with someone. Is it not more pertinent that this be examined at the time the sale is contracted rather than at the time the

goods are delivered from the point of view of business planning?

Mr. Grey: That, of course, is exactly what the producers of heavy electrical equipment in Canada have argued; that it is relevant to examine the question of dumping at the time the tender is accepted rather than three years later when the damage has been done. That general concept looks quite different when you apply it to different types of imports. It is an observation that has one meaning when you talk about heavy electrical goods, perhaps sold to a provincial utility and the goods are delivered three years hence under a contract with escalation clauses, than if you are talking about cotton pants and china.

Mr. Saltsman: Even cotton pants and china have to be contracted in advance. A large department store might make a contract six months in advance of the actual delivery. Is it not going to inhibit the business transactions if you make your decision at the time of delivery instead of providing provisions for telling people what is going to happen at the time the sale is made?

Mr. Grey: Mr. Chairman,—and I am involved in prediction here—I would predict that the law will be sufficiently detailed that without hiring an expensive or even an inexpensive lawyer it will be possible for the average customs broker or importer to know whether or not the transaction he is about to engage in constitutes dumping. It will not be that complicated. It will be sufficiently clear and detailed to give him guidance. Second, it has not been our impression that there were many dumping transactions where the importer did not know that he was dumping. The generality is that people know when they are dumping.

Mr. Hees: Mr. Chairman, this is not in the form of a question; it is just something I would like to suggest to Mr. Grey and those examining this legislation from a practical point of view because I know it is something that has been done quite regularly in the past, especially by big textile manufacturers in the United States. They produce in such large runs that they can never take a chance on being short for the seasons's run: They always have to overproduce. They do it deliberately. At the end of the run they perhaps have 115,000 yards over it; they have to sell; and the practice that I have run into in business has been that they take a very small quantity—perhaps 5,000 yards—invoice it to a

special customer in the United States at a very low price, establish a home market value on that small quantity and then dump the 110,000 extra yards in Canada using that invoice as proof of fair market value at home.

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I mention that because I know it has happened often. I think it is something that should be borne in mind by the department, that in determining fair market value they make absolutely sure that a single invoice for a relatively small quantity of goods of that kind is not taken as fair market value. It is very unfair to Canadian producers.

Mr. Grey: Mr. Hees, it is of some interest that the new, proposed United States rules, which have been published in the federal register and which everyone is now examining, deal with this problem. The United States has had for many years, and proposes to continue to have, precise rules about for how long in the home market a quantity discount must have been made available, and for what proportion of the trade, before it will be accepted as being the subject of a proper allowance for deciding whether or not there is a margin of dumping.

Mr. Hees: Are we going to adopt the same principle here? It seems to me that we should adopt that principle to make sure that goods are not dumped in this country and to make sure that...

The Chairman: I do not know if Mr. Grey is in a position to answer categorically, but presumably this is something...

Mr. Grey: Mr. Chairman, perhaps one way to answer this is to say that I would have thought that the committee of officials which is drafting some legislation, which will have to be considered, of course, by the Ministers, would not be doing its job unless it pointed out to the Ministers that other countries are interpreting the provisions of the code in particular ways. What Ministers do with that information is a matter I cannot comment on.

Mr. Hees: Naturally, I cannot expect you to make the decisions. I am just hoping that you pass along these suggestions to those who are doing this important work.

The Chairman: Mr. Gilbert?

Mr. Gilbert: Thank you, Mr. Chairman.

Mr. Grey, what does the anti-dumping code do to attempt to solve the problem of hidden dumping that you mentioned in your preliminary statement?

Mr. Grey: Mr. Chairman, primarily, as far as the Code is concerned, this is covered by a provision relating to the export price. The problem of hidden dumping does not cause any difficulty in determining what the normal value is in the country of export, but it raises the question of whether the invoice price shown to you by a related firm—which is an importer related to the exporter—is in fact an accurate reflection of the consideration that has passed. There is one paragraph in Article 2 which makes it clear that national authorities could make rules about this. The code really does not place much limitation on this. It says:

(e) In cases where there is no export price or where it appears to the authorities concerned that the export price is unreliable because of association or a compensatory arrangement between the exporter and the importer or a third party, the export price may be constructed on the basis of the price at which the imported products are first resold to an independent buyer...

on the basis of this;

...or if the products are not resold to an independent buyer, or not resold in the condition as imported,...

That might apply to components which were incorporated and manufactured by the importer,

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...on such reasonable basis as the authorities may determine.

Then there is this additional sentence:

In the cases referred to in Article 2 (e) allowance for costs, including duties and taxes, incurred between importation and resale, and for profits accruing, should also be made.

Therefore, if there is a transaction between an importer who is related to an exporter and the question is raised whether—because it does not appear on the face of the invoice—it is dumping and you have reason to doubt, because of the association, that that invoiced price is the real consideration, you may look at the price at which he sold it to an independent buyer and deduct the duties and

taxes and the profits he made and get a figure that you can deem to be the export price, which may or may not be lower than the stated invoice price. The difference between that and the normal value, if any, is the margin of dumping.

The important point here is that it provides rules in one category of such cases that surely do enable you to get at whether or not that export price is the real price, and, in the other category, on such reasonable basis as the authorities determine.

Therefore, I feel that the code does not inhibit a country such as Canada from making reasonable rules of law to deal with this large category of transactions. The word "reasonable," of course, is an important word there.

Mr. Gilbert: Mr. Grey, am I right in assuming that the initiative has to come from the industry in the first instance? Could it also come from the government?

Mr. Grey: Yes; but the code provides that no investigation shall be launched. In the United States practice and in the British practice investigation involves giving notice; and it is a formal concept; so obviously there is a stage before an investigation is launched; but they shall not launch an investigation unless they have evidence of dumping and injury.

We are attempting to set down very precise rules to guide the administrative officials in this proposed legislation. Obviously that is a different kind of evidence from what you have at the end of the process when you make a determination. It is designed to protect exporters against investigations which are merely designed to harass them, and from that point of view it is important to Canada as an exporter.

That is the only limitation, though, on the right of governments to initiate an investigation themselves—that they must have evidence of dumping and injury that is obviously of a *prima facie* character.

Mr. Gilbert: May there not be circumstances in which it might be difficult to get evidence about this? If it is a captive market you are not going to get a complaint from the importer here.

Mr. Grey: You might, though, have a complaint from a retailer, or from someone who felt he could compete in the absence of the

captive market; or it may be that officials of the Department of Industry would bring information to the attention of the customs authorities.

Mr. Gilbert: I see.

Mr. Grey: There is no limitation at all placed on the government's right to initiate it, if there is some kind of evidence; and it is quite clear in the context of the code that although this has to be real evidence it is of a very preliminary character.

Mr. Gilbert: Thank you, Mr. Grey.

The Chairman: Gentlemen, if I am not mistaken we appear to have completed our questioning of Mr. Grey and Mr. Gherson. I wish to thank them for their most enlightening presentation.

We obviously cannot make as much progress as we might like on the detailed consideration of the tariff resolutions with Mr. Annis and Mr. Schwarzmans as witnesses.

I understand they both wish to make brief introductory statements which I believe—in fact I am confident—could be completed by 5 o'clock. Perhaps we could have these placed on the record so that we could consider them on Monday and proceed with our hearing on Tuesday.

Perhaps Mr. Schwarzmans and Dr. Annis would now come forward and take their places at the table.

Mr. Saltsman: On a point of order. If these are written presentations perhaps we could move to put them on the record without their being read.

The Chairman: I did not have a chance to inquire about the form of these initial presentations. I have Dr. Annis' statement. Mr. Schwarzmans, do you have a written text?

Mr. M. Schwarzmans (Assistant Deputy Minister (Trade Policy) Department of Trade and Commerce): Mr. Chairman, I can make a brief comment...

The Chairman: I understood that you had an initial comment to make before Dr. Annis and yourself conducted us through the concessions we are granting in the related gains. Perhaps I was mistaken in this.

• 1640

Mr. Schwarzmans: Mr. Chairman, I do not have a prepared statement but I was considering making a brief comment before we

entered into the details of the tariff list. However, I could have a brief statement prepared to submit for the next session.

The Chairman: I would prefer, subject to what the remainder of the Committee may say, that if you could make your comment now it could be printed in today's record and we would have it available for our opening session on Tuesday morning. We already have Dr. Annis's statement. Do we agree on that? We could hear from Mr. Schwarzmans.

An hon. Member: Are there copies for distribution?

The Chairman: Dr. Annis, do you have any extra copies?

Dr. Annis: Not enough to go around. I only have about four copies.

The Chairman: It will be printed. If I am not mistaken, we will have the minutes on Monday. That is why I wanted to get this initial aspect out of the way before we adjourned this afternoon.

Editor's Note: The statement tabled by Dr. Annis is as follows:

I understand, Mr. Chairman, that the Committee wishes to turn now to Resolution 8, and to examine in some detail the tariff changes provided for in the very long schedule thereto. As you will have noted, it is some 130 pages in length, and contains nearly a thousand items.

This is the main resolution providing for the implementation, over the period from January 1, 1966 to January 1, 1972, of the reductions in Canadian tariffs to which Canada agreed in the Kennedy Round negotiations. You will have noted that the resolution sets out precisely and in complete detail, exactly how the reductions are to be made, whether in one step or five.

In each case the rates of duty shown in the first line opposite an item came provisionally into effect on January 1 of this year. Except in cases where the final rate was brought into effect on that date in a single step, the rates to apply on and after January 1 of 1969, 70, 71 and 72, respectively, appear in subsequent lines under the headings British Preferential, Most-Favoured-Nation and General Tariffs, respectively.

The former rates of duty, ie. those that applied prior to January 1, 1968, are shown, for information only, in the final three columns of the schedule. These columns will be dropped when the Bill is prepared. Apart from this, it is proposed that this schedule appear in the Bill to be enacted with no change of substance, and only minimal changes of form. It must be recognized that the Kennedy Round Agreement is a package to be accepted or rejected as a whole.

As regards the three columns of rates, it will be noted that there is always a reduction in the M.F.N. rate; there is always no change (or at any rate no change of substance) in the General Tariff; and there is only occasionally a change in the B.P. tariff. This follows from the fact that it was M.F.N. rates that were negotiated at Geneva, and from the general GATT rule requiring that these negotiated reductions in M.F.N. rates result in consequential reductions in margins of preference, where preferences exist.

However, while the B.P. rate may be the same as the M.F.N., it should never be higher. Consequently, wherever the final rate under the M.F.N.—that is, the final rate negotiated—is lower than the B.P., the resolution provides that the B.P. be reduced also. The very first item in the schedule is a case in point.

Where there is a reduction in the B.P. rate, this reduction normally is staged over the same period and in the same way as the M.F.N. However, there are a few departures from strict uniformity in the staging. These are made to avoid awkward fractions, or for other technical reasons.

Following these general remarks about technical matters, possibly we could turn to the schedule which commences at page 7 of the resolutions.

You suggested, Mr. Chairman, that officials make some initial comments about groups of items, in the order in which they appear in the schedule, and that following the initial comments on each group, members of the Committee put any questions which they may wish to ask. I would suggest, Mr. Chairman, that the first natural group of items in the schedule is a broad one, which merits some comments as a whole, and then might be subdivided for further comment.

Pages 7 to 29 of the schedule relate to agriculture and horticultural products, including tropical products. Taken together, the

items in this broad group cover dutiable imports into Canada from all countries of nearly \$200 million per annum. However, tropical or sub-tropical products which do not compete directly with Canadian farm products account for nearly half of this total.

In terms of our trade with the U.S., we gave and received concessions on agricultural products to a trade value of about \$95 million per annum each way. In terms of our total trade in such products this is a modest package, but I think it can be regarded as a worthwhile one.

As you have all the details in front of you, I shall not undertake any extensive review of the reductions. It may be worthwhile, however, noting the following points in relation to trade with the U.S. in agricultural products:

1. Canada and the United States are providing free entry both ways for apples, turnips, maple sugar, maple syrup, certain berries, many grass and forage seeds, hay and straw.

2. Duty reductions of 50 per cent, in parallel with the United States, are made on fresh pork and fresh carrots.

3. Out-of-season rates are reduced or removed on certain fresh fruits and vegetables, including brussels sprouts, corn on the cob, parsley, radishes, green onions, apricots, sour cherries and plums. There are no significant reductions of in-season rates on temperate fresh fruits or vegetables.

4. Duties are reduced on a number of processed food products. For cocoa or chocolate preparations (including chocolate confectionery) rates are reduced from 20 or 22½ per cent to 15 per cent; on cleaned rice from 70 cents to 50 cents per cwt.; on biscuits from 20 per cent to 12½ per cent. There is a reduction in the duty from 20 per cent to 17½ per cent on dried, pickled or preserved vegetables, vegetable pastes and soups.

5. The duties on raisins and currants are reduced by 50 per cent to 1½ cents and 2 cents per pound, respectively.

6. The duty on orange juice, pineapple juice and grapefruit juice is reduced from 7½ per cent to 5 per cent.

7. There are no reductions in the Canadian rates on such important but

sensitive products as butter, cheese, kernel corn, fresh or frozen beef, turkeys, chickens, fresh eggs (there are minor reductions on two processed egg items on which the present rates are out of line), or potatoes.

Mr. Chairman, possibly I could make three general comments about these temperate agricultural items, and then pause for questions before going on to discuss tropical and semi-tropical products.

My first comment relates to the nature of these tariff cuts. It is that they either omit entirely or go lightly on products which compete directly with Canadian producers.

The second comment also relates to the nature of the items selected for cuts, but from a different aspect. You will note that a good many of the reductions involve "input items"—products which to some farmers, at least, enter into production costs—for example hay, straw, field seeds, young fruit trees, even dairy cows, are in this category.

My final comment relates to the reason for this cautious approach to cutting tariffs on farm products, at a time when we wanted to get maximum concessions for our exports. The reasons are basically three:

(a) In general, our tariffs are already low in this sector;

(b) Careful attention was paid to the pre-Kennedy briefs and oral representations from the farm organizations; these urged caution;

(c) The opportunities to obtain cuts in other countries' tariffs on farms products on attractive terms were distinctly limited; we got what was available at reasonable prices.

Tropical Products

With regard to tropical products, Canada (and also the U.K.) advocated a joint approach in which all major developed countries would accord free entry to the main tropical products (except sugar) from all sources. Under this approach the Commonwealth Caribbean countries and other preferential suppliers would have gained more than enough in third markets to make up for their loss of preferential free access to the Canadian and British markets.

In the event, this approach was adopted only in part. Third countries such as the EEC and Japan were prepared to go part way, but not all the way—indeed not much of the way

in the case of bananas. Consequently, in order to preserve existing margins of preference the original Canadian offer on bananas was withdrawn completely (and so was that on rum). However, significant progress was made toward free trade or freer trade in tropical products. This should benefit both LDC suppliers, and Canadian consumers. You will note that the M.F.N. duty is removed completely in a single step on cocoa butter, green coffee, cocoa beans, nuts, coconuts, and woven fabrics wholly of jute. Reductions are made in the duty on all spices, and also on cocoa products roasted coffee, etc. The duty on desiccated coconut is reduced from 2 cents to free under the B.P. tariff and from 3 cents to 1 cent per pound under the M.F.N. tariff.

Before pausing again for questions, may I add one further comment? It is what we did not ask, and did not receive, any specific reciprocal concessions from developing countries in return for our concessions on tropical products. What we did insist on, and did obtain, was an overall package which would protect the interests of developing Commonwealth countries who now enjoy preferential access to the Canadian market. Some of the proposed reductions in M.F.N. rates infringe margins of preference bound under the Canada-British West Indies Trade Agreement of 1926, which, subject to numerous modifications, is still in effect. These changes are being made with the consent of the Governments concerned.

Mr. Schwarzmann: Shall I proceed, Mr. Chairman?

The Chairman: Yes, Mr. Schwarzmann.

Mr. Schwarzmann: This, by the way, is merely a very brief comment before entering into the detailed examination of the Canadian tariff lists, and I thought I might just make two or three points following on Mr. Winters' statement.

Mr. Winter's statement outlined in some detail the export gains and tariff concessions obtained in export markets, so I do not need to go into much detail on this. Just to recapitulate, I am going to refer to the fact that export concessions, as was pointed out by Mr. Winters, cover about \$3 billion of current trade and this includes wheat. Of course, this does not take account of the future potential in terms of new export opportunities available as a result of the concessions received. There is no way of

making any precise estimate of this potential trade, so that the \$3 billion refers to the current exports at the time of the conclusion of the Kennedy Round.

The second point—and I think this was also referred to by Mr. Winters—is that the maximum tariff concessions which were legally authorized under the United States legislation during the negotiations were obtained on almost all the products of which Canada is currently a major supplier to the United States market. This includes the 50 per cent cut and the removal of duty, that is, free entry, wherever this was legally available under the United States legislation. In addition, of course, there is a wide range of significant concessions in items of current interest in overseas markets—Europe and Japan.

The third point, which I thought might be of general interest to keep in mind in making an assessment of the total package, is that the results of a multilateral negotiation based on the most favoured nation principle, of course, means that there is a multiplication of benefits obtained which go well beyond what any one country by itself could have obtained in separate negotiations with its trading partners. In this case, as Mr. Winters and I think Mr. Sharp also emphasized in his opening statement, this it is even more so because of the linear character of the tariff cuts made on the industrial sector by a major trading partner. Therefore in our main export markets entire sectors of tariffs on industrial goods—manufactured and semi-manufactured—have been lowered across the board, which brings the tariff levels in most of these countries to levels of 10 per cent or below.

• 1645

Finally, Mr. Chairman, referring to the publication *Foreign Trade*, which I think is before the members of the Committee, it has in it lists of tariff concessions obtained by Canada in a number of export markets. I should mention that these, of course, are selective lists of simply the main items of interest to Canada in terms of our current export trade. They do not, of course, indicate the very wide range of items of interest to us in terms of future or potential trade or in terms of commodities in which at present we are only minor or marginal suppliers. It was physically impossible to reproduce in this kind of a publication the very wide range of concessions of this kind which are available to us as a result of the negotiations. These cover several thousand pages of lists of tariff

items in all the countries in the GATT. So in considering the publications before the Committee I think we should bear in mind that there are many thousands of items of interest to Canadian producers and exporters which are not in these lists but which, of course, are available and our tariff services in the Department of Trade and Commerce are in a position to provide the detailed information on any one of these items of interest.

The Chairman: Thank you very much, Mr. Schwarzmänn. I think it would be appropriate for us to adjourn at this point unless...

Mr. Hees: I would like to ask Mr. Schwarzmänn a question. It is true, is it not, that we do not impose tariffs on any goods from any country unless there is a producer of those goods in this country, and either he or those associated with him in the production of those goods throughout the country constitute 10 per cent of the total consumption of those goods in this country. Is that not right?

Mr. Schwarzmänn: No. With respect to the tariff this does not apply.

Mr. Hees: I am not talking about dumping. We are just talking about the general question of tariffs.

Dr. Annis: With regard to tariffs, that is not so, Mr. Hees. To give you an example, we have tariffs on raisins which are not produced here, and an important part of the reason is that a tariff on foreign raisins, non-Commonwealth raisins, was imposed largely for the purpose of giving Australia a preference in the Canadian market, and Australia in turn gives us preferences on a number of goods. There are many other examples. There was a time when we had a tariff on oranges but this no longer applies.

An hon. Member: There is a tariff on bananas?

Dr. Annis: Yes.

The Chairman: They grow bananas in Essex County, you know, but I must say so far only in greenhouses.

Mr. Hees: For instance, take the Commonwealth countries under our Commonwealth system of preference, there would be no tariff imposed against any of their products coming into Canada provided those products were not produced in Canada. Is that right?

Dr. Annis: That is usually the case both in respect of raisins and bananas. In the examples we have mentioned that would be the case. They are free under the British preferential tariff and the rates of duty apply only under the most favoured nation and general tariffs. It is usually true in respect of other goods but it is not necessarily always true.

Mr. Hees: Why would we impose a tariff against goods that we do not produce and which are produced by fellow members of the Commonwealth? What would be the excuse for that?

Dr. Annis: There may be more than one reason but the most frequent reason is really largely now an historical one. If one goes away back to the time of Confederation, tariffs were primarily imposed as a means of raising revenue. In the first year after Confederation three-quarters of the federal revenue came from customs duties. Incidentally, the amount of the customs duties then was about 8 million, which was three-quarters of the total federal revenue. That is a bit of history. Among the higher rates there were tariffs on such things as spices and tea and other products of that sort.

Mr. Hees: We carry them on for no other reason than the fact that we always have? Is that the case?

Dr. Annis: No, I would not subscribe entirely to that.

Mr. Hees: Well, what would you say?

Dr. Annis: Revenue considerations are still a consideration. They are not the dominant one in most cases but in respect of certain tariffs it is certainly a factor.

Mr. Hees: It seems to me that in the context of the Kennedy Round that with the whole idea now of broadening trade and removing trade barriers that I would think Canada could set a pretty good example by removing trade barriers on any goods that do not compete with Canadian goods. I am surprised that we have not seized on that.

• 1650

Dr. Annis: Certainly the trend has been in that direction. But, it is a trend that as yet, at least, has not been carried completely through to what you would regard as the logical conclusion. I might suggest that there are some who might not fully agree with you. There might be some who would say that in

certain cases a revenue tariff is a fairly good way, among others, of raising revenue.

Mr. Hees: Mr. Chairman, is it possible—if this is not too large—to get an idea of the kind of products we are talking about and the amount of revenue raised in that way?

The Chairman: We could ask Dr. Annis, the Director of Tariffs, whether this can be extracted from the general tariff without creating some voluminous...

Mr. Hees: I do not want all the little items.

The Chairman: ...research project.

Dr. Annis: I think it would be difficult to do it in a satisfactory manner. I could quote some examples if you like—jot down some examples and give them to you here or privately. In many instances, of course, it would involve a personal judgment to decide whether some particular tariffs are, in fact, applicable to goods that are not made in Canada or whether they are being applied to a class of goods where some of the goods in question are made in Canada and some are not. Inevitably, of course, we deal with classes.

The Chairman: May I suggest, before we proceed further into this very interesting discussion. It is my understanding that Dr. Annis will be presenting the balance of his evidence by way of discussion of classes or groupings of commodities and products, if I am not mistaken.

Dr. Annis: Yes, sir, following what I had thought was the Committee's wish...

The Chairman: Yes, that is right.

Dr. Annis: I thought that we could deal...

Mr. Hees: To simplify my question, could I put it this way? Perhaps Mr. Annis could let us have, or let me have, a list of the main products not produced in Canada which we import from members of the British Commonwealth—the so-called underdeveloped countries—and against which we charge a duty for revenue purposes. I think that makes it quite simple.

Dr. Annis: Yes, that makes it quite simple. Also, it would come down to a very small list—possibly none at all, if you put it in those terms. But there will be goods imported from Commonwealth countries, which are not produced in Canada, which are subject to duty because they fall in "basket" categories. We have a "basket" category relating to

manufacturers of wood, not otherwise provided for...

Mr. Hees: These are the things I would like to know.

Dr. Annis: We cannot break that down.

The Chairman: I would suggest to the Committee, aside from what Dr. Annis may present directly to Mr. Hees, that we deal with these things as we proceed to each category so that this will be handled on a reasonably organized basis.

I suggest we adjourn now until Tuesday at 11.00 a.m. at which time we will continue with the evidence of Dr. Annis assisted and supplemented by Mr. Schwarzmann and their respective colleagues.

Mr. Hees: Yes, that is fine. Mr. Chairman, perhaps Dr. Annis could start his evidence on Tuesday morning by dealing with the matters that I...

The Chairman: I had suggested to Dr. Annis, using my prerogative as Chairman which may not mean very much, that we deal with commodity groupings and groupings of products.

Mr. Clermont: Mr. Chairman, Dr. Annis said that in many cases it would be a question of his personal opinion. How can he put that on a piece of paper?

The Chairman: That is another very good point.

Mr. Clermont: And furthermore, maybe Mr. Hees can tell us later, if it is a question of revenue, where to find the additional revenue that we may have lost.

The Chairman: Order, please. This may be an interesting matter to debate which we could pursue later on in our deliberations.

Mr. Monteith: There was an extra 5 per cent surcharge last December.

Mr. Clermont: You were used to a deficit when you were in power.

An hon. Member: What do you have?

Mr. Clermont: Six years, six deficits.

The Chairman: I think it is time to adjourn.

Appendix G

<i>Replies provided to Mr. Hees</i>		Trade Missions sponsored by the Department of Trade and Commerce		
Trade Fair Exhibits sponsored by the Department of Trade and Commerce			Outgoing	Incoming
1960	13	1960	4	—
1961	20	1961	5	2
1962	38	1962	19	—
1963	35	1963	12	7
1964	46	1964	15	10
1965	43	1965	14	6
1966	41	1966	12	17
1967	46	1967	10	31

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HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1968

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

TUESDAY, JANUARY 23, 1968

RESPECTING

Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

From the Department of Finance: Dr. C. A. Annis, Director of Tariffs;
From the Department of Trade and Commerce: Messrs. M. Schwarzm-
mann, Assistant Deputy Minister (Trade Policy); T. M. Burns,
Director, Section II, Office of Trade Relations; R. M. McKay,
Agriculture and Fisheries Branch.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,
Beaulieu,
Cameron (*Nanaimo-
Cowichan-The Islands*),
Cantin,
Comtois,
Flemming,
Gilbert,

Hees,
Irvine,
Laflamme,
Lambert,
Latulippe,
Lind,
Macdonald (*Rosedale*),
Mackasey,

McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Noël,
Thompson,
Tremblay (*Matapédia-
Matane*),
Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

Acting Assistant Clerks:
Fernand Despatie (*Printing*),
Michael A. Measures (*Documents*).

ORDER OF REFERENCE

MONDAY, January 22, 1968.

Ordered,—That the Standing Committee on Finance, Trade and Economic Affairs be authorized to sit while the House is sitting.

Attest.

ALISTAIR FRASER,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

MONDAY, January 22, 1968.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

EIGHTH REPORT

Your Committee recommends that it be authorized to sit while the House is sitting.

Respectfully submitted,

HERB GRAY,
Chairman.

(Concurred in January 22, 1968.)

MINUTES OF PROCEEDINGS

TUESDAY, January 23, 1968.

(20)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gilbert, Gray, Hees, Irvine, Laflamme, Lambert, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*), Noël, Wahn—(15).

In attendance: *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs; Mr. J. Loomer, Tariff Division; *From the Department of Trade and Commerce:* Messrs. M. Schwarzmann, Assistant Deputy Minister (Trade Policy); T. M. Burns, Director, Section II, Office of Trade Relations; R. M. McKay, Agriculture and Fisheries Branch.

The Chairman reported that the demand exceeded the supply for copies of the printed Proceedings and therefore, on motion of Mr. Clermont, seconded by Mr. Irvine, it was

Resolved,—That this Committee authorize an increase to 1,000 (from 850) in English and 500 (from 350) in French of the number of copies printed of the Minutes of Proceedings and Evidence.

The Chairman reported on the witnesses to be heard next week and, in accordance with an agreement reached at the meeting of January 18th, Mr. Irvine reported that he had telephoned officials of Canadian General Electric to ascertain whether they wish to submit a brief. He now stated that it was the opinion of CGE officials that the brief of the Canadian Manufacturers' Association presents their views and they therefore do not wish to submit a separate brief.

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff resolution.

The witnesses from the Departments of Finance and Trade and Commerce were recalled and Messrs. Annis, Schwarzmann, and Burns were questioned on tariff reductions in the field of agricultural and horticultural products.

Mr. Annis tabled a reply to a question asked by Mr. Hees concerning Canadian imports from Commonwealth developing countries which, in accordance with the decision of the meeting of January 18, 1968, is attached as *Appendix H*.

At 12:55 p.m., the questioning continuing, the Committee adjourned to 3:45 p.m. this day.

AFTERNOON SITTING
(21)

The Committee resumed at 3:52 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gray, Hees, Irvine, Lambert, Latulippe, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*), Noël—(12).

In attendance: The same as at the morning sitting.

Messrs. Annis, Schwarzmann, Burns and McKay were questioned on reductions in tariffs on products in the fields of agriculture, fisheries, beverages, paper products, vegetable oils and seeds, and metals.

At 5:05 p.m. Mr. Lind took the Chair at the request of the Chairman, and at 5:25 p.m. the Chairman resumed the Chair.

The Chairman expressed condolences on behalf of the Committee to the family of the late René Tremblay, formerly a member of this Committee.

The questioning continuing, at 5:50 p.m. the Committee adjourned to 3:30 p.m. Wednesday, January 24, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, January 23, 1968.

• 1107

The Chairman: Gentlemen, I think we are in a position to call the meeting to order.

[Translation]

I declare the meeting open.

[English]

First I think we have some routine matters to dispose of. The Committee may be happy to learn that our proceedings are apparently a hit. There has been such a demand for our proceedings from the distribution office that we have been requested to authorize an increase in the number of copies printed of our Minutes of Proceedings and Evidence to meet the public demand.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Do we get the royalties Mr. Chairman?

The Chairman: No. I might look into that. I would invite the Committee to authorize an increase to 1000 from 850 of the number of copies printed in English of the Minutes of Proceedings and Evidence. I assume from this, Miss Ballantine, that the quantity we have authorized in French has proved sufficient so far.

The Clerk of the Committee: Yes.

Mr. Clermont: What is the quantity authorized in French Mr. Chairman?

The Chairman: Three hundred and fifty. Of course, we would be prepared obviously to authorize an increase in the quantity printed in that language if it is not adequate to meet the demand. But I gather from the report provided me by the Clerk, based on what she has been told by the distribution office, the demand for the English version has been so great that if we do not authorize an increase the public will not be supplied.

[Translation]

Mr. Clermont: Mr. Chairman, perhaps the demand for copies in French has not increased because they are not yet available.

[English]

The Chairman: Oh yes, that is right. I think we should note that. You are quite right. I think that as a matter of...

[Translation]

Mr. Clermont: Mr. Chairman, would the Committee object to increasing this 350 to 500?

The Chairman: I see no objection to that. It is true that it would help the Committee to do its work. Last week we tried to have the reports gathered by the Committee printed in at least one of our official languages. We continue to do everything in our power.

Mr. Clermont: I was informed this morning, Mr. Chairman, that the French copies would be available very shortly.

• 1110

[English]

The Chairman: Perhaps we should, to anticipate a motion of this type later on, also authorize an increase...

[Translation]

...what number would you suggest, Mr. Clermont?

Mr. Clermont: I would recommend printing from 350 to 500 copies if the Committee is agreeable.

[English]

The Chairman: Mr. Clermont, perhaps that could be made into a motion to authorize an increase to 1,000 in the number of copies printed in English and 500 in the number of copies printed in French.

Do I have a seconder?

Mr. Irvine: I second the motion.

[Translation]

Mr. Clermont: Mr. Chairman, I find that satisfactory.

[English]

Mr. Ballard: Mr. Chairman, would it not be more logical to leave to the discretion of the

Chairman the decision on the number of copies to be printed?

The Chairman: I do not believe I have the authority to do that. I appreciate this mark of confidence, but I doubt that the rules and regulations permit this to be done.

Mr. Ballard: The rules will not allow this Committee to make such a motion?

The Chairman: That the Committee can authorize the Chairman to state whatever...

Mr. Lambert: I agree with Mr. Clermont's proposal, with the rider that it not be mandatory that they print the 500; but that if the demand is for that number they be authorized to do so.

The Chairman: All right.

An hon. Member: I feel that we are wasting time on this sort of thing.

The Chairman: It is unfortunate that the rules are not more flexible. This is beyond our control.

Are we agreed on this motion?

Some hon. Members: Agreed.

The Chairman: I should report to the Committee on the work that I have carried out in co-operation with our Clerk to arrange for the appearance of witnesses outside the government sector.

We have arranged that on Thursday, January 25, at 3:45 p.m., Dr. H. E. English will appear on behalf of the Consumers' Association of Canada; on Tuesday, January 30, 1968 at 11:00 a.m. the Canadian Importers' Association Inc. will appear, and at the afternoon session the Machinery and Equipment Manufacturers' Association, followed by Messrs. Richard and Hooper of Gowling, McTavish if time permits; on Thursday, February 1, 1968, at 11:00 a.m., we will hear the Chemical Producers' Association, followed by the Canadian Salt Company Limited.

We are, of course, awaiting the results of Mr. Irvine's contacts with General Electric and CEMA on whether or not they will be submitting briefs by the end of the week. If they do so I will certainly direct the Clerk to ask them to appear as soon as possible after...

Mr. Irvine: We are able to report on that, Mr. Chairman.

The Chairman: Are you able to do that?

Mr. Irvine: I have not heard from CEMA as yet, but I was talking on the telephone, just before I came to this meeting, with Mr. Johnson of Canadian General Electric. He said that they had reviewed, in detail, the brief to be presented by the Canadian Manufacturers' Association, dated January 10, which I believe is on the agenda, and that their views on 42700-1 are identical with those of the Canadian Manufacturers' Association. He also said that their views, generally, on the anti-dumping area that they cover and on the non-tariff barriers are much the same, with the possible exception of heavy duty goods because they know of no way of determining how one could arrive at a fair market value in this particular area. He said that in view of that they would endorse the presentation of the Canadian Manufacturers' Association and would not be presenting a brief. They asked me, however, to thank the Committee for its indulgence in this particular respect.

• 1115

The Chairman: Thank you, Mr. Irvine. This will be noted in our proceedings.

It has been indicated to our Clerk by the Canadian Manufacturers' Association that they do not feel that they are in a position to have their delegation appear until the week beginning February 5, and they have expressed a preference for Thursday, February 15. I have asked the Clerk to inform them that we have to move our work along and I presume it would be the Committee's wish, if they do want to appear, that February 5 be the date. However, I should report that I have been informed by the Clerk that the representatives told her that they do not propose to make a personal appearance unless the Committee asks them to do so. They say they have said everything they want to in their brief.

After the briefs have been distributed I perhaps can get the view of the Committee on whether we want them to appear. Obviously this opportunity is available to them.

Mr. Lambert: Mr. Chairman, on the basis of the timetable that you set out, was it contemplated that we would be dealing entirely with representatives of the various departments this week? I was hoping that we could accelerate the appearance of the public witnesses.

The Chairman: You are quite right. Unfortunately, it is not the easiest thing in the

world to get these various groups to assemble their delegations to appear this week. We find, without being peremptory about it, that the only group in such a position this week is the Consumers's Association of Canada. However, you will notice that we have a rather full schedule for the coming week.

Mr. Lambert: That is what I was concerned about, because I have other commitments.

The Chairman: I can assure you that I instructed our Clerk to do everything possible to have more of those who have presented briefs appear this week, but because of the inability of various representatives of various groups to be here it was just not possible. Unless we want to be more peremptory than has been our practice we will have to accept the situation.

Mr. Lambert: I suggest, for the consideration of the Committee, that we have to be, because on the timetable indicated by the Prime Minister for March, with the possibility of adjournment by March 10, we really will have to hurry if this is going to go through the House.

The Chairman: That is right.

Mr. Lambert: Therefore, it behooves us to get on with it.

The Chairman: That is right.

Mr. Lambert: These public representations must conform to this timetable.

The Chairman: That is right.

Mr. Irvine: Mr. Chairman, if I may add something—and this is going to open up another sore that I discussed last week—if time is so much of the essence would it not be sensible for us, now that the House is sitting perhaps to sit in the evening as well to complete this? We are all here for the purpose of getting the business rolling.

The Chairman: We have complete authority at this time to sit while the House is sitting. The motion I presented on your behalf yesterday was accepted by the House, and subject to requirements of staff and other obligations of members we are certainly in a position to do so.

As a practical matter I do not think it will mean very much this week, because I doubt that we can get other outside witnesses to appear this week unless we suddenly say "Sorry, but you have to turn up." If we do

that it will be at the risk of our not having the most knowledgeable spokesmen for these groups available to us, and it may not be to the best interests of the Committee. However, next week, if it is the wish of the Committee I can see no reason for our not continuing with evening sessions. For example, we have three people scheduled to appear on Tuesday. It may be that to have proper discussion with them and to avoid going over until Thursday we could sit in the evening and complete our discussion. The same would apply to Thursday.

Perhaps we could make a final decision on that after we see how we get along next Tuesday. However, you are quite right, Mr. Irvine, and we are in a position to do this now that the House has resumed its sittings; and we are here anyway.

Is there any further comment on my report on the order of witnesses to appear once we have finished with the officials? If not, we will continue with the witnesses we began with last week, namely, Dr. Annis and his colleagues from the Department of Finance, assisted by Mr. Schwarzmann of the Department of Trade and Commerce and his colleagues from that department.

Dr. Annis, I believe you have a reply to the question raised in a general way by Mr. Hees when we adjourned?

Dr. C. A. Annis (Director of Tariffs, Department of Finance): Yes, Mr. Chairman. At the close of the meeting on Thursday Mr. Hees asked if we would provide, at the opening of today's meeting, a list of any important products or imports from Commonwealth developing countries that were subject to revenue duties on importation into Canada. We have prepared such a list on the basis of the rates that were in effect as of December 31, 1967. It turns out to be a short one. Conceptually at least it can be divided into two groups, the first comprising products on which, prior to January 1st, there existed a British preferential rate of duty that is being removed by the resolutions which the Committee now has before it; and, secondly, products on which a British preferential duty will remain after the Kennedy Round concessions come into effect. It turns out that there is really only one important product in the second group. That is raw sugar.

• 1120

The important items in respect to which there were duties existing prior to January 1 of this year, but which are being removed from less developed Commonwealth countries

are as follows: cocoa beans, and dates n.o.p., that is packaged dates, bulk dates were already free; canned pineapples and any nuts which had been dutiable up until that time, there had been some that had been already free, and desiccated coconut. As you see, it is a short list and with respect to each of the items that I have named the rate under the British Preferential Tariff, at any rate, disappears under the Kennedy resolutions and, in fact, in all except one case it disappeared as of January 1 on a provincial basis.

Mr. Hees: As of now, those come in free?

Dr. Annis: They come in free.

Mr. Hees: Do they come in free from all countries?

Dr. Annis: With the exception of desiccated coconut, ultimately they will all come in free of duty. In the case of canned pineapples, the British Preferential Tariff is removed immediately and the residual MFN is staged. Ultimately they will be free from all countries and as of now most of them are already free from all countries.

I might add a comment with regard to cocoa beans which is the most important item in this list. There has been a special situation with regard to that product. In the case of this particular item the British Preferential Tariff already provides for free entry, but because of a rather peculiar provision in the Canada-British West Indies Trade Agreement which goes back to 1926, imports from Ghana and from that part of Nigeria which is west of the Niger River were excluded from the benefits of the preference and, consequently, those cocoa beans have been dutiable. Now, as of the January 1 provision we substitute ratification by Parliament of the legislation or implementation of the resolutions, that duty has been removed. As I said, the only really important remaining item where a duty applies to imports from Commonwealth countries as well as foreign countries, and it is a preferential duty in this case, is raw sugar imported for refining.

I do not think that we need to discuss that except, possibly, I could give the total imports involved. They are large. In 1966 total imports under this item were valued at \$43 million of which almost \$40 million were from Commonwealth countries and most of it from Commonwealth developing countries. The customs duties collected on imports from Commonwealth sources were \$4.6 million. I have a table here which gives the details of

the imports and the duty collected by country. If you would like to have that we would be very glad to give you a copy, but certainly it is long and I think is not worth reading into the record or anything of that sort.

Mr. Lambert: May I ask a supplementary question on this point. The question of the importation of sugar from Commonwealth developing countries is not really the stumbling block with regard to the trade pattern between Canada and these countries. I rather believe that their representation is not so much with regard to the negligible tariff we had, but with the guaranteed minimum price over a period of years.

Dr. Annis: I think that that is true, sir, and that, of course, is the subject which is discussed in another form in connection with the International Sugar Agreement and was really not an issue in the Kennedy Round negotiations. Sugar was, in effect, left out of the Kennedy Round and that was very acceptable to Canada and it seemed to be the way that other countries wanted it, too. Sugar really was not discussed at the meetings.

Mr. Hees: What is the tariff that Commonwealth countries are charged on raw sugar coming into Canada?

Dr. Annis: Twenty-eight cents per 100 pounds on the basis of 96 degree raw sugar. There is a scale depending on the test by the polarization.

Mr. Hees: What is the reason for the tariff?

• 1125

Dr. Annis: There is a mixture of reasons, I think, and it seems to me to try to be very specific about them would be putting interpretations on the intention of Parliament in previous years. The important thing is that the rate against preferential sources is twenty-eight cents a hundred, against non-preferential sources \$1.28 a hundred. There is that margin of preference of \$1.00 per hundred which, to our Commonwealth sources, is the important thing. In each instance the tariff has some revenue aspects; it produces quite a lot of revenue; it also has some protective content, too. We, after all, do produce beet sugar.

The Chairman: In Alberta and also South-western Ontario.

Dr. Annis: Yes, but it seems to me that this pursues that aspect of the story as far as is really useful.

The Chairman: Mr. Clermont?

[Translation]

Mr. Clermont: Mr. Chairman, the witness mentioned that he was ready to give to our colleague, Mr. Hees, a copy of the information he did not give. Would it not be preferable that this be added as an appendix to today's proceedings?

The Chairman: Yes, that is how we will proceed, because the question was brought up in an open sitting. This means that the answer will be printed in our proceedings.

Mr. Clermont: But there is other complementary information that the witness did not give and which he was ready to give to our colleague, Mr. Hees. Why would this information not be included in the appendix?

The Chairman: I understood that all this information would be printed when it had been given to Mr. Hees.

[English]

Am I right in this?

Dr. Annis: In fact, I might add that this table was really all I had intended to give in the way of additional information. It seemed to me that this was all that was really relevant to the question.

The Chairman: Gentlemen, before we proceed further I think I may...

Mr. Cameron (Nanaimo-Cowichan-The Islands): May I ask a question, first, Mr. Chairman? You mentioned just now that sugar was not discussed. Could you tell us why sugar was not discussed?

Dr. Annis: Sugar has been discussed and will be discussed further in another context, in the context of the negotiation or looking towards a revival, I guess is the right word, a continuation of an International Sugar Agreement which would deal with such matters as price ranges, supply and that sort of thing. This is really the matter, for the time being at least, that seems to be of greatest interest to those concerned.

Mr. Macdonald (Rosedale): Incidentally cocoa was eliminated for the same reason, was it not?

Dr. Annis: No; in our own case we really undertook to remove the duty from cocoa beans, and also, I might add, cocoa butter.

There has been an MFN duty on cocoa butter, but cocoa butter was not included in the list to which I have just referred for the reason that under the British Preferential Tariff it was already free. This was done in the Kennedy Round. We have already implemented our Canadian concessions and as of January 1, both cocoa beans and cocoa butter are being admitted free of duty from all countries.

Mr. Macdonald (Rosedale): Was there an inter-relation between the Cocoa Conference and UNCTAD's responsibility for the Cocoa Conference and your negotiations?

Dr. Annis: Not very direct. In this case it was possible to consider the rates of duty as a separate issue and other countries, apart from ourselves, made progress in the direction of removing duties from this product. I might add that it was only because other countries were making progress that it was possible for us to remove our duties and with them to remove the present margin of preference in favour of Commonwealth suppliers with their full concurrence.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Did I understand you to say...

The Chairman: Mr. Cameron, I think this should be...

Mr. Cameron (Nanaimo-Cowichan-The Islands): I had not finished when Mr. Macdonald interrupted me, I am sorry.

Did I understand you to say that there is going to be a meeting to establish a new world agreement on sugar? Could you tell us when this is going to be?

Dr. Annis: I think that I ought to refer that question to Mr. Schwarzmans who is really more familiar with these matters than I am.

Mr. M. Schwarzmans (Assistant Deputy Minister, Department of Trade and Commerce): Gentlemen, I think it is planned to hold a negotiating conference in April of this year.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Will all the different countries be there?

Mr. Schwarzmans: Yes, there has been quite a bit of preparatory work done in connection with this and I think April has been set as a date.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Thank you.

• 1130

The Chairman: I would like to draw to the attention of the Committee that Dr. Annis' statement which was accepted for printing, shall I say, at the conclusion of our meeting last week actually is in two parts; first, some brief general introductory comments and then his specific comments beginning with the third paragraph from the bottom of the first column on page 371 on agricultural and horticultural products generally, going on to some specific comments on tropical products.

I gather it was Dr. Annis' idea that he would be able to start sufficiently early that these specific comments would give rise to questions by the members. Actually what we have done since beginning this morning is to ask questions which, perhaps by chance, fall into the particular category of agricultural and horticultural products that are also set out in detail in the resolution on pages 7 to 29.

I suggest that for the time being we attempt to relate our questions to the agricultural sector before going on to other sectors. Am I correct in the way I have analysed the statement you presented to us?

Dr. Annis: Yes, sir, you are. I had not intended to say anything further in the way of general comments but to leave myself in the hands of the Committee.

The Chairman: Yes.

Mr. Lambert: Mr. Chairman, may I ask a couple of general questions which may eliminate a certain amount of detailed questioning?

With regard to the animal products as they start with item 400-1, we notice that there are progressive reductions. In others, among the spices and some of the other commodities, we find a tendency towards one reduction straight across the board, usually to the point of being free under the MFN. Was there a consistent principle, or what was the rationale, behind the type of bargaining that went on and the consequent agreement to the reduction?

Dr. Annis: There was a principle and a rationale. I do not think I could claim that we were completely consistent in applying it in that in some cases, in terms of Canadian action, what was done was related in part to particular domestic considerations.

But to deal specifically with the points you have raised which, it seems to me, illustrate

the general case very well, you referred to spices and a number of other tropical products. With respect to such products, in general Canada agreed to go to free entry. We did not make any specific undertaking regarding accelerated application of these, but we had regard to general resolutions which had been passed both in the GATT and another context urging developed countries to accelerate—to move in a single step if possible—the concessions designed to assist the trade of developing countries.

Canada was one of the leaders in urging the maximum possible action on tropical products, and urging that the reduction or removal of these be applied as quickly as possible, so that when it came to providing for the implementation of the Canadian commitments in respect of tropical products, and also some other products of particular interest be developing countries, the general principle of applying those in a single step was adopted; in other words, in most instances as you have said, sir, going to "free" as of January 1 in a single step.

This was done largely because of the needs and desires of the developing countries, the recognition of those needs, and as part of a general move among developed countries to do what was practicable in this regard. Where we moved on tropical products—where we undertook obligations—we introduced the whole of the cut in a single step.

• 1135

Mr. Lambert: Subject to correction, Dr. Annis, a cursory examination would seem to show that concerning these tropical products, those who are getting the greatest benefit out of this are the non-Commonwealth countries. It seems to me that under the old rates, the BP rate, tariff was free; in a very large number of these particular commodities there was a tariff rate with regard to the MFN. That is where the step to "free" has taken place, so the greatest benefit for developing nations has been for those of the non-Commonwealth group.

Dr. Annis: That is perfectly true, Mr. Lambert, if you look at the Canadian concessions in isolation. In our case, by and large, we already had provided for free entry under the British Preferential Tariff, so that the effect of removing our MFN duties was to remove existing margins of preference. But the point is that we should not look at this isolation; this was part of a general package. An important aspect of what was done involved cuts

in, and in some cases the removal of, duties by our trading partners, by the European Economic Community, by the Scandinavian countries, by Japan, and others.

Our Commonwealth trading partners were compensated for the preferences they gave up in the Canadian market by getting better access—in some cases free entry, and in other cases only some reduction in duties—to these other markets which are important to them.

Now, the fact that these other countries in some cases were not prepared to go as far as we would have been prepared to go, did involve a certain amount of limitation on what we did. Canada took the position that as far as bananas were concerned, which do not appear in these resolutions, we would have been glad to remove, and our Commonwealth trading partners would have been glad to have us remove, our MFN rate of duty and with it the margin of preference on bananas, provided—and it is an important provision that countries such as the EEC and Japan also would move a good way in this field.

In fact, it was our judgment and the judgment of our Commonwealth partners that what others were prepared to do in the particular case of bananas would not provide compensation for them for the loss of preferences in the Canadian market and in the British market. Both we, and the British, withdrew our offers on bananas; in these resolutions there is no mention of bananas.

The Chairman: Gentlemen, is it the wish of the Committee to discuss agricultural products, including tropical products, as a group or first to discuss the temperate agricultural products and then go on the tropical ones?

I see that Dr. Annis has broken down his remarks in this area to these two categories, although it may be equally satisfactory to discuss agricultural products as a whole without attempting to have the two categories.

As I pointed out to the Committee, Dr. Annis began his specific remarks on agricultural products in the third paragraph from the bottom in the first column of page 371 of our *Proceedings* of January 18, then began his discussion of tropical products in the second paragraph from the bottom of the first column of page 372 of these *Proceedings* which have been available to us, I believe, since Monday.

If there is no objection, perhaps we can discuss agricultural products generally which, as I say, are set forth in detail on pages 7 to 29 of the Tariff Resolutions.

Mr. J. Loomer (Tariff Division, Department of Finance): Mr. Chairman, might I make a suggestion which really follows from a part of Mr. Lambert's question which I did not answer; I intended to and then I forgot about it.

• 1140

Mr. Lambert referred not only to the tropical products, but to the items on page 7, the first page of the Resolutions, where the action taken to some extent contrasts with the one-step revisions implementation of the reduction or removal of duties on these LDC products.

It seems to me that it might be worth while just taking a look at the items on page 1 because it happens that they illustrate about three different types of staging and, in a sense, the reasons for it.

If I refer to these items, it might save time later. If one looks at the first item, horses n.o.p.—incidentally, it is an item under which our total imports are just over \$1 million a year, almost entirely from the United States—this is an item which is being staged, where we are going all the way to free entry ultimately. It is an item where possibly we might have introduced the changes in one step. I do not think the difficulties of doing so would have been insuperable at all, but an argument for staging was that the Americans are staging their concession on the corresponding items. In this particular case, they are not able to go to free, but they are making a 50 per cent cut, and they are going to free on a number of other live animals of interest to us; live sheep I believe is an example.

A reason for being willing to go to free in this instance—in fact, from one point of view, I think, we should welcome going to free—is that a large part of the imports under this item are imports of horses which actually would qualify for free entry under another item which relates to purebred horses if their papers were in order when they reached the border. There is a certain amount of trade back and forth; purebred stock of any kind is entitled to free entry provided the evidence is there that it is purebred and qualifies for the treatment. What is not purebred, or thoroughbred in the case of horses, is normally subject to duty, and also the duty would apply at any rate when the horses are imported if the papers are not in order, and would subsequently be refunded. By providing for free entry under this item, an important result

will be to avoid quite a lot of paper work and trouble for both customs collectors and those who have reason to send horses back and forth across the border, whether for breeding, for permanent use of foals, or for racing, and it will involve eliminating a considerable amount of red tape that is now necessary in this field. So that I think that after 1972 customs collectors and others concerned will be very glad we have removed the duty on this product.

If one looks at the second item, silver or black foxes, you will notice that in a single step, the duty of 20 per cent is removed and goes all the way to free. Now, one might think that that looks pretty drastic, but actually in 1966 there were no imports under the item. Sometimes there are imports under the item. It is one where our competitive position is shown; where if the Canadian fox breeder or rancher has some reason to import some stock, well, more power to him. This was a clear-cut case which illustrates the generalization made by Mr. Sharp in the field, that in cases where our competitive position was very strong, it would save trouble; we would go to free in a single step.

If one looks down the page further, cows imported for dairy purposes, and also animals not otherwise provided for, in each case we go to free entry, but stage it, as the Americans are staging their corresponding cuts in the field. These are products which in a sense represent, to at least some farmers, input items. They are really, in a sense, the raw material for the dairy farmer, and consequently farm groups would have a mixed interest in the removal of this duty; some would welcome it, some others might not welcome it, but at least they would not object violently.

• 1145

Mr. Monteith: What are the Americans doing in that respect?

Dr. Annis: In that particular item, the Americans are going from a rate of 1.5 cents a pound to .7 cents a pound. They are not going all the way to free on that one. As I mentioned previously there are some animals where they are going to free.

Mr. Ballard: Mr. Chairman, keeping in mind the remarks which you made about registered horses, may we also assume that registered cattle to be used for breeding are imported free under some other schedule?

Dr. Annis: Yes, sir; that is correct.

Mr. Irvine: Mr. Chairman, this item 503-1, silver and black foxes; immediately above that you have animals living, not otherwise provided. Is that included in this category with the silver and black foxes?

Dr. Annis: Well, the set-up there is not very clear, sir, but the explanation is this: that the animals living, not otherwise provided for, is a sort of general heading, and then, silver and black foxes, the cows, and the n.o.p. are all sub-headings.

Mr. Irvine: The rest of these items are fine. Thank you very much.

Dr. Annis: That is correct. Now, just one further comment before I leave this page. The last two items on the page are more important in trade terms; particularly the final one, the fresh pork. Fresh pork is a very important item in trade between Canada and the United States. It is an item where there is a two-way trade. In some years it is fairly evenly balanced; we may be importing in one area at the same time that we are exporting in another; in some years the balance will be northward, and in some years southward, depending on the hog cycle. This is an item where Canada and the United States have matched rates in the past, and are now matching a reduction. There are quite a number of agricultural products that are in this category, where both we and the United States are reducing rates reciprocally in a move that it is believed should be of general benefit, on balance at least, to the producers in both countries, and also to the consumers in both countries.

The Chairman: Mr. Cameron?

Mr. Cameron (Nanaimo-Cowichan-The Islands): Dr. Annis, I would like to revert to this item of cows imported especially for dairy purposes. Of course, they are coming in free now but I am wondering why have they been based on a per-pound basis, because this means that certain breeds are more expensive to bring in than certain others?

Dr. Annis: I think that that is partly, I suppose, on the basis of analogy. At one time the cows for dairy purposes—in fact, prior to this—had been dutiable under the same item and at the same rates as beef cattle and feeder cattle, and in that as regards beef cattle, I think a specific rate of duty of so much per pound is really appropriate here. Now, in the case of dairy cows, I would agree that it is

scarcely appropriate, but at one time there was no distinction.

Mr. Cameron (Nanaimo-Cowichan-The Islands): They were coming in free, anyhow but it seemed to be an odd basis of calculation; why you had to pay more for a holstein than for a jersey.

Dr. Annis: I agree, sir.

The Chairman: Mr. Lambert do you have a question on this page?

Mr. Lambert: No.

The Chairman: Perhaps I might ask you to clarify something for me, Dr. Annis. You said that the phrase, animals living n.o.p. is a heading. What is the status with respect to animals not specifically mentioned? I see several items just headed n.o.p. Now, take 505-1, does that refer to cows, or to animals generally?

• 1150

Dr. Annis: That would refer to animals generally which are not specifically provided for at any place in the tariff, in the tariff as contrasted to these Resolutions. If you look at the customs tariff you will see that there are quite a number of listed categories of animals which do not appear here. The n.o.p. is a residual category at the end of the item and actually is not a very important one because the important animals are specified—cattle are specified.

The Chairman: If you move to 705-1, another n.o.p. item, does this refer to another category of animals in the whole tariff? Would that be the case?

Dr. Annis: In that case the heading which is relevant is "Meats, fresh, n.o.p." and under that heading we have first "Pork", and then "Other fresh meats not otherwise provided for". I might add that again in this case in looking at the resolutions we are looking at a document or a list that is not complete. There are items in the tariff which do not appear here. There is another item for beef, for example.

Mr. Monteith: There is no change in that.

Dr. Annis: There is no change in that and consequently it does not appear in these Resolutions.

The Chairman: Do members have further questions on these categories at this time?

Mr. Irvine: In clarification of this item which I asked about before and you, Mr. Chairman, mentioned it, then this, just above 503-1, Animals Living, n.o.p., could have been in larger type. Then we go down below and the next classification is 704-1; one covers the living and the other covers just the product. Is this right?

Dr. Annis: Yes that is correct. I certainly take your point that the setup here is far from ideal. If we were apologizing for some aspects of the organization of the Canadian tariff we would be on the defensive, in part because it is a very old document—the basic document is the Customs Tariff of 1907.

Then a second element in some of the apparent disorder is that recently it became necessary to renumber the tariff and provide for separate six-digit items opposite each tariff rating if we were to get from the new tabulating computers statistics of imports by tariff item. Consequently, in order to in a sense meet the design needs of the computers and the computer programmers, it was necessary to insert some general headings for items of this sort in the tariff and to assign item numbers which were not as logical as the previous ones but they did meet the programming needs of the Dominion Bureau of Statistics.

In a way that may not be a very good excuse for that setup which you find confusing, but at least it is the reason for it.

Mr. Lambert: Surely there are no legal restrictions on using uppercase letters or something like that for these sub-classifications.

Dr. Annis: Quite true, sir, and if we had specified to the Printing Bureau in this case—if our mimeographed copies had been done differently—it probably would be clearer.

The Chairman: I gather from your comments on page 372 of our *Proceedings*, Dr. Annis, that the nature of the cuts we gave were limited by the fact that our trading partners were not as forthcoming as they might otherwise have been in this area.

• 1155

Dr. Annis: Yes, sir. In my judgment that is a fair comment—a fair generalization. It must be recognized that in the grains agreement we, of course, got something of importance to Canada that stands on its own feet, but, so far as tariff cuts in the agricultural area are concerned, what we got was limited and what we

gave was limited and, in the judgment both of the negotiators who were immediately responsible for conducting the negotiations and of the minister and the government that approved it, it was a justifiable and desirable package.

Mr. Lambert: Is it not the case that no country is going to give anything, really, with regard to agriculture?

This is at the core of the EEC—it is being said by the French that the EEC was designed to protect French agriculture. Canada is no different than any other country—we simply protect our agriculture and the others do too.

Dr. Annis: Yes, it seems to me that you put it in its extreme form but I would not quarrel with what you said.

The Chairman: This includes the western part of our country no less than the other parts?

Mr. Lambert: That is a tougher league.

Mr. Cameron (Nanaimo-Cowichan-The Islands): As a matter of idle curiosity, Dr. Annis, can you tell us what "Illipe butter" and "Shea butter" are?

Dr. Annis: They are not very important products in commerce but they are vegetable fats, I suppose one would call them, which originate in Africa and to some extent are potential substitutes for some other vegetable oils.

Mr. Cameron (Nanaimo-Cowichan-The Islands): As I said it is just idle curiosity; I have never seen the words before.

Dr. Annis: Would you like to have a more extended definition? It happens we thought that someone might ask that question.

Mr. Cameron (Nanaimo-Cowichan-The Islands): No, I brought this on myself. Let the matter drop.

Dr. Annis: All right.

Mr. Macdonald (Rosedale): Are we taking a general survey of the items now or are we going through them progressively?

The Chairman: Well, we are dealing generally with the items under the heading of Agricultural and Horticultural Products which are roughly covered in the...

Mr. Macdonald (Rosedale): I know where they are, but you are not still confining us to animals?

The Chairman: Oh, no. I felt it was the wish of the Committee that we deal with this generally.

Mr. Macdonald (Rosedale): May I ask a question, then?

The Chairman: Yes.

Mr. Macdonald (Rosedale): Going to tariff items 7802-1 and 7803-1 there does not appear to be any change from now and the future. Why, as a matter of interest, were these two put in the Resolutions? Item 7802-1 is for gladiolus.

Dr. Annis: The explanation of that, sir, is that one needs to look at those two items in relation to the item which immediately precedes them. In the past the three items have been together but are now split up and the duty is removed from certain of these products; palms, ferns, rubber plants and so on. The two remaining parts are the residual of the item on which no change is made.

[Translation]

Mr. Clermont: Mr. Chairman, I believe there is a long list of fruits and vegetables which will come in duty-free during the first three months of the year, that is, January, February and March; and other fruits and vegetables will come in duty-free during the first six months of the year. Among this latter group will there be any which might compete with our Canadian vegetables?

[English]

• 1200

Dr. Annis: I think it is fair to say on that matter, sir, concerning the changes which are being made at this time that any reduction or removal of duties is confined to types of vegetables or periods of the year when the imported product is not competitive—I think one could go so far as to say clearly not competitive—with the Canadian product. Now to some extent, in fact to a very large extent, the rates and periods which you see in this document reflect off-season free entry which is already in effect and, in some instances, it may be true or might be argued that there is a period when there is, if not direct, at least indirect, competition with the products of either the Canadian field grower or hot-house grower who really are producers of that product. But with regard to the changes being

made which were very carefully examined by the horticultural experts in the Department of Agriculture, I think it is fair to say that any new concessions given these products, relate either to the reduction or removal of off-season rates—this would be the normal case—or some very minor product which is not competitive.

[Translation]

Mr. Clermont: Could you mention two or three articles which might be admitted duty-free for the first six months of the year. Name just two or three.

[English]

Dr. Annis: I guess Brussels sprouts is the most important and clearest case. The concession regarding Brussels sprouts involves the removal of the 10 per cent duty which now applies from January to June inclusive. A note prepared by the experts of the Department of Agriculture says that Canadian production comes on the market in August. It is also pointed out that the seasonal duty of 3 cents a pound, which incidentally is equivalent to an *ad valorem* of about 23 per cent, normally is applied from late August to late December, and in the case of imports in small packages, there is an additional 5 per cent *ad valorem* applied.

More than 90 per cent of our total imports, which last year were valued at about \$512,000 entered off-season, so I think the correct inference to draw from this, is that the free entry period, although in this case it is an extended period—a six month period—covers a part of the year when the imports are pretty clearly non-competitive for the Canadian producer.

• 1205

[Translation]

Mr. Clermont: In a word, our negotiators at the GATT conference studied the protection which, in certain cases, should be given to producers of fruit and vegetables of Canada?

[English]

Dr. Annis: Yes, sir, that is correct. Two considerations were regarded as very important in this. One was to protect the position of the Canadian producer: the second was to try to do what was thought the most practical in this field, to assist consumers by removing or reducing rates of duty in periods of the year when imports were not competitive with the Canadian production. It was for this reason that our concessions were confined almost entirely to the reduction or removal of

off-season duties. I would recognize that it could be argued, in some cases, that the off-season period for one vegetable is not the off-season for another vegetable and that there is some degree of substitutability and that there is a degree of indirect competition.

[Translation]

Mr. Clermont: It was also very important to study the needs of the consumer, Mr. Chairman. I would like Mr. Annis' comments on items 1605-1 and 1610-1, concerning eggs. I note that the tariff on December 31 for Most Favoured Nations was 10 cents a pound. Because of the Kennedy Round agreements it will be reduced on January 1, 1972 to seven cents a pound.

As regards eggs, which might be imported from the United States, would these duties be the only protection which applied, or would there also be a question of quotas?

[English]

Dr. Annis: I think the important point to note in connection with this item and also the following item, sir, is this. There are two items relating to eggs which appear in these Resolutions. There is another, and I would think a more important item, which does not appear. The item which does not appear is the item relating to shell eggs—eggs in the shell—which is the one that would be regarded as most sensitive from the point of view of the Canadian producer. On eggs in the shell, the present MFN rate of duty is 3½ cents a dozen and that rate is bound under previous agreements. It is a rather low rate of duty and there has been some criticism and some concern about eggs imported in the shell from the United States and other countries.

The two items relating to eggs which appear on this schedule, you will note, relate first to frozen eggs or egg yolk and secondly, to dried eggs or egg yolk. As you have mentioned in the case of the first of these, the MFN rate of duty will be reduced over five steps from 10 cents a pound to 7 cents a pound.

I might add that the calculated *ad valorem* equivalent of that present 10 cents is about 40 per cent *ad valorem*—much higher than the rate on shell eggs. What is being proposed here, speaking generally, at least, is a reduction on two items relating to processed eggs where the present rates are out of line with the more important rate already in effect which has not been changed on shell eggs. In so far as there is a problem on eggs, I think the rate on the shell eggs is the critical one.

Mr. Macdonald (Rosedale): Mr. Annis, the sun now being over the yardarm, I would like to talk about rum, more specifically, Item 15615-1, Rum, n.o.p. I understand from the item that the effect of reduction is that the excise duty is being abolished on imported spirits.

Dr. Annis: No, sir. The change on rum is really a technical one which involves no change in the effect of taxation...

Mr. Macdonald (Rosedale): In effect of cost.

Dr. Annis: ...which you will recall was increased to the extent of \$1.25 per gallon in the special mini-Budget in December so the excise which is shown here in this tabulation of present rates at \$13 a proof gallon—remember this was prepared in November—has now been increased to \$14.25. The significance of the change as regards rum is that the excise element, the tax element is being taken out of the customs tariff and put where it might be suggested it more properly belongs, in our tax legislation—so that the new rates of duty shown in the left hand column here relate to the rates of duty on imported products which are separate from the taxation.

• 1210

The Chairman: Dr. Annis, can I just intrude here. It seems that inadvertently we have jumped ahead somewhat, and this may be a matter of argument on nomenclature, but I think that it could be said that rum is a process product made of, cane sugar, and we are actually discussing the raw product. Perhaps we could reserve our further discussion on this until we get to this category in perhaps a vain attempt to try to deal with this on an orderly basis.

Mr. Laflamme: I have a question related to strawberries. I see that the number 8225-1 concerns strawberry plant, but what about the products—the strawberries?

Dr. Annis: As far as strawberries are concerned, as products, there is no change in the rates of duty. They are not affected by these resolutions.

Mr. Laflamme: There is no change, but last year some manufacturers were able to buy their stocks during the off-season from outside, at a lower price than they could get on the market from our Canadian producers during the summer time. I have heard of quite a

few co-operatives who could not sell their products to former clients because they bought them from Mexico last year at lower prices, during the off-season.

Dr. Annis: Well, strawberries in common with quite a number of other fruits and vegetables are, of course, subject to wide fluctuations in the size of the crop, and to seasonal gluts when prices both in Canada and in the United States or in Mexico fluctuate and sometimes break rather badly. This gives rise to very real problems to producers from time to time.

The only comment that I could make in connection with these resolutions is that there is nothing in these resolutions as proposed here that would intensify those problems. In so far as anything is done, I suppose the only change is to give the producer duty free access to slips or cuttings that he may want to import, and I would not contend that this is going to be of important benefit to him. In so far as it has any effect, it would be a help, but it would be a slight one.

Mr. Lambert: My only comment is, what about the poor old consumer, particularly in this field? Sometimes it seems to me that you are getting taken to the top of the market wherever you are, whether it is from the United States, Mexico or Canada, and that the consumer is the one that catches it in the neck; he never gets the benefit of the full crop.

The Chairman: What access do our strawberry plants, or for that matter the strawberries themselves, have to other markets?

Dr. Annis: We will attempt to check on that, Mr. Chairman, we are not in a position to give an answer at the moment. I do not think that this is of much practical significance to our exporters in that I do not think we supply strawberry plants to the United States—not in any significant volume, at any rate.

The Chairman: What about the strawberries themselves during our own growing season?

Mr. Laflamme: I was not asking about the strawberry plants, I was asking about the strawberries.

Mr. Schwarzmann: Mr. Chairman, we could give you the United States...

An hon. Member: What are the freights on that item, gentlemen?

• 1215

Mr. Burns: Mr. Chairman, on strawberries the United States has two items. The one that is of interest, to Canadian exporters, is for a period between June 15 and September 15 when the United States is reducing duties to .5 cents per pound for that period.

The Chairman: And our duties on strawberries remain—not the plant, but the strawberries—remain as they were. Am I correct in this?

Dr. Annis: Yes. And the in-season rate is $\frac{3}{8}$ cents per pound.

The Chairman: It is higher.

Dr. Annis: Yes.

The Chairman: Perhaps I might ask a question at this point about two specific products, Doctor. Look at numbers 8728-1 and 8729-1, green onions and radishes. The system apparently used to permit the time when specific duty can be applied does not relate to any specific months but to periods of weeks. What is the system for determining and making known to growers, and to the public for that matter, when these periods are in existence?

Dr. Annis: The periods when the seasonal rate of duty is invoked are decided on in a formal sense by the Minister of National Revenue who has officials who consult closely with the Canadian Horticultural Council and other producer interests concerned, and decide each year on periods when these will be brought into effect. The periods are announced publicly and published and circulated in customs bulletins which go out automatically to everyone who subscribes to the service of the Department of National Revenue. It is certainly well known in the trade immediately.

Mr. Hees: Mr. Chairman, could I...

The Chairman: Mr. Ballard is next on my list, Mr. Hees.

Mr. Ballard: Do these dates vary in different parts of Canada? I am thinking about the different growing seasons in Ontario as compared to Western Canada.

Dr. Annis: Yes, sir. They do. Normally the country is divided into regions for the purpose of imposing these seasonal duties, and in fact, in certain areas they may never be imposed. If you look at these Fruit and Vegetable Bulletins, as they are titled, you will

frequently notice that a bulletin will be issued applying the seasonal duty to a given product, such as strawberries, and then immediately withdrawing it from the area from Fort William west or something like that, so that recognition may be given to the different seasons in British Columbia on the one hand, the Prairies on another, the Ontario-Quebec region and then the Maritimes.

Mr. Ballard: Are these dates published far enough in advance that horticulturalists can plan their plantings well in advance?

Dr. Annis: I think it is the other way around, really. The dates are set in relation to the estimated period in which the Canadian crop in a given area will ripen. The seasonal duty is usually instituted shortly before the anticipated availability date of the Canadian crop in order to prevent or minimize any tendency for imports to spoil the market in the period shortly before the Canadian product comes on the market.

Mr. Ballard: I see. In other words, if an individual market gardener wanted to be safe in so far as customs is concerned he would be wise to follow the pattern set by all the other market gardeners in his area? In other words, he could not be an independent person and grow cauliflower in a year when other people are not growing cauliflower because he may be affected by customs duties?

Dr. Annis: I suppose that is true. The only point that I would add would be that it is my hunch that in most years, at least, the climate and the weather really force them into the pattern, and that there would be limits on his ability to be independent if he wanted to be.

The Chairman: I have a supplementary question for Mr. Hees, followed by Mr. Lambert.

• 1220

Mr. Hees: Could Mr. Annis tell me if there have been any changes made with regard to canned and fresh apples, tomatoes and peas? Those are the three things that grow in my area and I have to attend a meeting of canners and growers tomorrow and they are irate about something so I think I better get myself armed. Have you any information on those things?

Dr. Annis: I have part of it certainly, and in a moment I think we could supply all of it. The first comment is this: as far as apples are

concerned, the Americans and ourselves are both going, reciprocally, to free entry.

Mr. Hees: It is free entry now.

Dr. Annis: No, it is not now, but it will be.

Mr. Hees: How soon?

Dr. Annis: In 1972.

Mr. Hees: What is the situation now? Has there been any change since January 1st on apples?

Dr. Annis: Yes, one-fifth of the reduction has come into effect. If you look at page 26 of the Resolutions, at the last item on that page, you will see that the present MFN rate is one quarter of a cent per pound...

Mr. Hees: Oh yes.

Dr. Annis: As of January 1 that went to .20 cents per pound.

Mr. Hees: That is right.

Dr. Annis: Then it will progressively go into "free" on January 1, 1972.

The Chairman: That continues on to the next page, actually.

Dr. Annis: Oh yes. The United States will remove their duty on our apples over the same period of time. Now that is the first point.

The second point regards canned fruits. In general no change is being made in the rates of duty. There is one exception to that, and that is canned pineapple. As far as canned peaches, or pears, or berries, or strawberries are concerned, there are no changes whatsoever.

Mr. Hees: What about...

Dr. Annis: The same is true about canned corn, incidentally.

Mr. Hees: What about corn, peas and tomatoes?

Dr. Annis: There is no change on any of them. I had better just confirm that. Yes, I can confirm that there is no change on any of those.

Mr. Hees: Thank you very much, Doctor.

The Chairman: Mr. Lambert.

Mr. Lambert: My question is supplementary to Mr. Ballard's. It arises out of whether the Horticultural Council, in approaching the

Canadian negotiating authorities, made the point that because of advancing technology in the storage of vegetables, we are now finding a great deal of development in the market gardening and in the commercial growing of a great number of common vegetables on the prairies. This is something which did not exist 5 or 8 years ago. They have now been able to develop the storage facilities and the packaging facilities so that, while they may be protected during a certain period of import, they are, in actual fact, being "bombed" from other regions of the country by the big super market chains. Therefore, the problem is not necessarily an international one but, a national one. It is further aggravated, of course, by the entry of vegetables from the United States and Mexico.

• 1225

Dr. Annis: The Canadian Horticultural Council submitted a very elaborate, comprehensive and good brief to the Committee which met under the chairmanship of Hector McKinnon in advance of the negotiations. I recall that they had quite a lot to say in that about the improved methods of storage, inert atmospheres and this kind of thing, and the fact that this was changing the competitive situation. I do not recall them making the point about the internal change in the sense of western suppliers being "bombed" by the super markets. For the purposes of these negotiations, of course, this is really an issue that was off on one side and is not correctly relevant.

Mr. Lambert: I think that the problem was pointed out when they said that the improvement in technology and storage and so forth did change the situation. I am merely pointing out a further facet of it; that the internal competition is accentuated by the subsequent entry from the outside. This arises from the improved technology and storage within Canada.

Dr. Annis: The Council certainly did make that point about the change in storage methods.

The Chairman: Mr. Lind did you have some questions?

Mr. Lind: Yes, I do Dr. Annis. What I was inquiring about the other day was the export of Canadian tobacco to Great Britain and Japan. What duty do our exporters have to pay on entering these two countries?

The Chairman: Perhaps we can ask Mr. Schwarzmann and his colleagues to deal with that.

Mr. Schwarzmann: Mr. Chairman, the tobacco duties in the United Kingdom are revenue duties. They are high. They were not changed in the main Kennedy Round Agreement. The British Preferential rate is 4 pounds, 5 shillings and 10 pence per pound, the MFN rate is 1 shilling and 6 pence half-penny a pound higher than the Preferential rate to which Canadian exporters are entitled. This means that there is a preference on an entry of Canadian tobacco into the United Kingdom as against MFN suppliers of about 20 cents per pound. As I said, that situation was not changed in the main Kennedy Round Agreement.

However, in the separate agreement that has been mentioned earlier in the Committee, relating to the elimination by the United States of the American selling price system, the British did make a contingent reduction—contingent on the U.S. action made ASP—to reduce the preference that now applies to Canadian tobacco by one quarter or about 5 cents a pound, which would leave a residual preference of 15 cents per pound for Canadian tobacco entering the United Kingdom, as compared with tobacco entering from Most Favoured Nation sources.

As far as Japan is concerned, I have not got the actual tariff rate in front of me but, as I understand the situation, tobacco is purchased in Japan by a state monopoly, so that in a sense the tariff itself is not the controlling factor; it is more in relation to the purchasing by the state monopoly which will purchase all the tobacco requirements of Japan. Thank you, Mr. Chairman.

Mr. Lind: Is most of this tobacco exported as stemmed tobacco then?

The Chairman: I think this would be Mr. Burns' field of activity.

Mr. Burns: Mr. Chairman, our information is that as far as the United Kingdom is concerned, about half of our trade is in stemmed tobacco.

Mr. Lind: And the other half a semi-processed, is it?

Mr. Burns: Yes, sir.

Mr. Lind: What duty or what tariffs do we impose on imported tobacco?

The Chairman: Now we turn to Dr. Annis.

Dr. Annis: With regard to imported tobacco, I think we should make a distinction. There is, in the Resolutions, a provision for a reduction of the duty on Turkish tobacco. In the case of unstemmed Turkish the rate will go from 22 cents a pound to 11 cents a pound...

• 1230

Mr. Lind: On what page is that?

Dr. Annis: Page 34 of the Resolutions.

Mr. Lind: Thank you very much.

Dr. Annis: On Turkish tobacco, both the unstemmed and the stemmed, we are making—in fact have made provisionally—a 50 per cent cut in the rate, from 22 to 11 per cent in the case of unstemmed tobacco and from 40 to 20 per cent in the case of stemmed tobacco.

Mr. Lind: Do they come in under the Most Favoured Nation tariff?

Dr. Annis: Yes. The imports of Turkish tobacco would be under the Most Favoured Nation tariff. They are quite small, in fact, very small. In 1966 the imports of unstemmed tobacco were \$94,000 in value and there was no stemmed tobacco at all. I make the point that Turkish tobacco is not regarded as competitive with our tobacco; of course, the big one being the bright flue-cured for cigarette manufacture, or even with our Burley. The Turkish tobacco would be used in small quantities for blending and, consequently, it is complementary to Canadian tobacco. As far as bright flue-cured tobacco is concerned—the kind we produce in Canada and of which we are very substantial exporters—no change is provided for it in the rates of duty which are now 20 cents per pound in the case of unstemmed tobacco—that is for cigars—and 30 cents per pound on stemmed tobacco.

Mr. Lind: Further to this, I do not see any mention here of tobacco that is imported from the Union of South Africa. What duty do we impose on tobacco coming in from South Africa?

Dr. Annis: Tobacco imported from the Union of South Africa would be admitted free of duty because of a provision that dates back to the Canada-South Africa Tobacco Agreement of 1932 when we had a trade agreement with South Africa—we also had one with New Zealand—which provided for the free

entry of tobacco from those countries under the British Preferential Tariff.

Mr. Lind: Did your department look into the possibility of dumping when this 1.25 million pounds was brought into Canada in December?

Dr. Annis: The Department of National Revenue have been and, I think, still are looking into the matter of the proper valuation of tobacco imported from South Africa.

Mr. Lind: I understood this tobacco came in here at probably half the price that our tobacco is selling for on the market. Is that not correct?

Dr. Annis: I am not in the position to verify that. The only comment I could make is that I am aware of the fact that concern was expressed about certain imports and the fear that there might be larger imports of South African tobacco under distress conditions arising, of course, from the disturbed situation which prevails because of the Rhodesian problem. In that connection, the only comment I would add would be that this is not entirely an ill wind from the point of view of our tobacco producers in that at the same time that problems have arisen through the possible existence of distress tobacco there, our market for tobacco in the United Kingdom has been improved as a result of the measures that they have taken with regard to Rhodesia. Possibly I should not have said even that as this is an area with which I am not very familiar.

Mr. Lind: I realize that, but how much tobacco can come in duty free to Canada from the Union of South Africa in a year?

• 1235

Dr. Annis: There is no limit on the amount; there is no provision for a quota. As far as potential limitations are concerned, the only point I might add is that sometimes fears have been expressed about the possibility of Rhodesian tobacco being imported. In that connection, it is subject to control under the Export and Import Permits Act and very careful watch is being maintained over that situation.

Mr. Lind: How long is it since we reviewed this situation? How far back does this agreement with the Union of South Africa go?

Dr. Annis: This goes back to 1932.

Mr. Lind: 1932. How long is it since we reviewed this? What preferential treatment do we get to allow this to come into Canada?

Dr. Annis: I think Mr. Schwarzmans or Mr. Burns would be the right person to answer the second part of that question. As regards the first part of it, there never has been a review of the trade agreement with South Africa in the sense of a re-negotiation or a rewriting of its provisions since it was originally negotiated. There have been changes in the margins of preference which we accord to them and which they accord to us, arising out of reductions in Most Favoured Nation rates of duty under trade agreements with third countries, in particular the GATT agreements. Some of the reductions of MFN that we are making in these Resolutions before the Committee do involve reductions of margins of preference which were originally bound under our bilateral trade agreement with South Africa. This follows from the fact that they and we were both participating in the Geneva exercise and it is recognized that in such a situation when they reduce MFN rates of duty, there will be consequential reductions in margins of preference.

Mr. Lind: Then, virtually the Union of South Africa could export unlimited quantities of duty free tobacco into Canada?

Dr. Annis: If they could find a market for them and recognizing, of course, that if they were found to be dumped, the provisions of section 6, our anti-dumping provisions, would apply.

Mr. Lind: If our officials of the Department of National Revenue who apply this, find out that this is Rhodesian tobacco going into South Africa and then being further shipped into Canada, what action can they take to stop this? We are part of a group who are applying sanctions to Rhodesia.

Dr. Annis: The importation of Rhodesian tobacco, whether direct or as re-exports from South Africa, would be in contravention of the provisions of the Export and Import Permits Act. I do not recall what the penalty provisions are for anyone who is caught exercising fraud in that respect, but possibly Mr. Schwarzmans does.

The Chairman: What department administers the Act?

Mr. Schwarzmans (Assistant Deputy Minister—Trade Policy): Mr. Chairman, possibly later this afternoon we could provide a statement on the procedures and the legislation as it affects possible evasion of the Export and

Import Permits Act, which governs prohibition of imports from Rhodesia.

Mr. Lind: How many of our Canadian tobacco companies now have taken advantage of this cheap tobacco?

Dr. Annis: I have no information on that and I do not think my colleagues here have. We have no information that would indicate that the amounts imported have been large. I am sure if they were, this would have come to light.

Mr. Lind: Had you not heard before about this import of 1.25 million pounds of South African tobacco?

Dr. Annis: Yes; I know the Department of Finance, the Department of Agriculture and the Department of Trade and Commerce, at least, have received representations on this matter.

Mr. Lind: If you are going to give us a further statement I will reserve any further questions until this afternoon after I get that statement.

• 1240

Mr. Lambert: Might I ask a question here? In the totality of the Canadian market for tobacco, how much does this represent? Is it two per cent or five per cent, because it seems to me that when we talk about tobacco we are into millions of pounds and in billions of cigarettes. It seems to me that somebody is trying to sweep both sides of the street.

Dr. Annis: I do not think that we are in a position to give a completely precise answer to that, but it would be a fraction of one per cent I believe. Probably a very large fraction of one per cent.

Mr. Lambert: Of the total Canadian market?

Dr. Annis: Yes.

Mr. Lind: May I ask what you mean by "sweep both sides of the street?"

Mr. Lambert: It would be an advantage of an up market in so far as export is concerned and trying to block out any competition coming in from another country we have a balance of payments in our favour.

Mr. Lind: Well I was trying to find out what preferences we get from the Union of South Africa for this concession.

The Chairman: This is not an immediate concession as I understand it; this is something dating from 1932.

Mr. Lind: Since 1932, that is a pretty long agreement.

The Chairman: I gather that the agreement must provide for certain access to South Africa markets for Canadian goods.

Dr. Annis: Yes, sir, it did. I believe I have copy with me, but it seems to me it would be a mistake to embark on a discussion of it.

Mr. Lind: I have just one further question. Was not that agreement made before tobacco became a very important crop in Ontario and some of the other provinces?

Dr. Annis: Certainly the production of tobacco in Ontario has been growing rapidly. I believe it had commenced before 1932, had it not?

Mr. Lind: It was not too strong back in those years though, was it?

Dr. Annis: I confess you are beyond my depth now.

Mr. Lind: Well what I am getting at is why the agreement of the past 35 years has not even been looked at.

The Chairman: I think we are getting into a policy area which it would not be appropriate to have Dr. Annis comment on. Perhaps this is something you could direct to the relevant ministers.

Mr. Lind: When I directed it to the relevant ministers they told me to direct it to Dr. Annis.

The Chairman: That is a tribute to Dr. Annis. I do not think that the comment by the minister pertained to why the agreement was not being renegotiated. If my memory serves me correctly, and I have not checked the records, but I think your questions at that time were with respect to matters of detail which Dr. Annis has been dealing with and regarding which there will be a further statement this afternoon.

Mr. Lind: Well perhaps when they have renegotiated and reviewed that agreement of 1932 we could have that information?

Mr. Schwarzmann: Mr. Chairman, as Dr. Annis said I do not think there has been an official renegotiation or review of the trade agreement with South Africa since it was

concluded, but the trade agreement does include, on the South African side, a number of preferential tariff rates of interest to Canadian exports as well. I do not have the details in front of me but we could revert to that if you were interested in pursuing the matter. You might be interested in having the total trade figures for 1966, Canada-South Africa. Total exports in 1966 from Canada were \$75 million and total imports were \$27 million. These are the 1966 figures.

The Chairman: The balance is quite in our favour. You will be able to report to us later today or Thursday on the administration of the Export and Import Permit Act with respect to alleged or possible attempted entry of Rhodesian tobacco.

Mr. Lind: One further area I am concerned with Mr. Chairman is the importation of corn. I was told the other day that the duty imposed on corn coming into this country from the United States was 8 cents a bushel. Now I notice on page 48 that the rate for the most favoured nation is 17½ per cent. How is that duty applied? I thought the duty should be applied to an f.o.b. delivered product.

● 1245

Dr. Annis: I believe reference was made the other day to kernel corn, that is the grain corn such as the ground.

Mr. Lind: Yes. Not the grounds, kernel corn.

Dr. Annis: Yes, kernel corn and I answered from memory that it was 8 cents a bushel. I think we should confirm that that was correct for kernel corn.

The Chairman: Could we clarify something here, doctor. The item on page 48 referring to corn appears to deal with oil rather than kernel corn. Am I right or wrong about that. This might help clarify the matter.

Dr. Annis: You are correct in that.

Mr. Lind: On what page is corn found? Perhaps I have the wrong page.

Dr. Annis: Kernel corn as such is not to be found in these Resolutions. In these Resolutions one will find the word "corn" appearing twice I think. Once is in the context which you have noted. At the top of page 48 the word "corn" appears and opposite it are rates of MFN, 17½ per cent. What you have overlooked, sir, is that if you turn back to the previous page there is a heading which says: "Vegetable oils, crude or crude degummed". I

beg your pardon, yes, "other than crude or crude degummed" and this begins with coconut, the second item is corn and then it goes on to cottonseed and so on.

Mr. Lind: Well where do we find the rate on corn itself as kernel corn?

Dr. Annis: In the Customs Tariff. It does not appear in these Resolutions, because there is no change in that rate. The one other place where there is a reference to corn in these resolutions is corn on the cob.

The Chairman: I think that is on page 21.

Mr. Lind: I will look at that, thank you.

Dr. Annis: On page 21 did you say sir?

The Chairman: At least in the resolution tabled in Parliament.

Dr. Annis: In the case of corn on the cob there is no change of the in-season rate of 1½ cents per pound, but off-season it will become free of duty whereas now there is a duty of 10 per cent *ad valorem* off-season.

Mr. Lind: Is this corn on the cob referred to as a vegetable or as a feed grain?

Dr. Annis: As a vegetable.

Mr. Lind: As a vegetable?

Dr. Annis: I just might add the point that 1½ cents a pound on feed grain would be a very heavy rate on corn on the cob.

Mr. Lind: Then there is no reference at all in this to corn on the cob as feed?

Dr. Annis: That is right sir.

Mr. Lind: It is listed as a vegetable?

Dr. Annis: It is a fresh vegetable.

Mr. Lind: A fresh vegetable.

The Chairman: I think the problem is related to the point raised by Mr. Irvine that the printing of the items in this Resolution, or I should say the headings for the various items, might have been done in a little bigger type which would help us to break down the categories.

Mr. Lind: Yes, especially for us older members of the Committee.

The Chairman: Is there duty free entry of bifocals? Do you have further questions, Mr. Lind?

Mr. Lind: No, I have no more than you, Mr. Chairman, until this afternoon.

The Chairman: Perhaps I could ask just a brief question here with respect to grains. What is the existing situation generally, not merely with respect to these Resolutions, but our tariff structure with respect to imports of grains into Canada?

Dr. Annis: Well most grains are dutiable, at any rate, under the Most Favoured Nation tariffs on entry into Canada and the rates of duty in general were not affected by the Kennedy Round. There was a reduction on rice, but I take it you are not interested in that.

The Chairman: Now the principal grains produced in Western Canada are what, wheat?

• 1250

Dr. Annis: Wheat, barley, oats and then of course rye and the oil seeds. Flaxseed is very important and rapeseed is becoming very important.

The Chairman: Yes; and are these the principal products of at least two of the western provinces, would you say? This is generally with respect to exports, but...

Dr. Annis: They are all important.

The Chairman: They are important?

Dr. Annis: Yes. If I may add one comment, I said that there were no changes in these resolutions in the rates of duty on grain. I was thinking then of the bread and feed grains. In the case of rapeseed...

The Chairman: The duty on rapeseed is being removed. One of our colleagues on the other side of the House may have some comment on that but could you tell us what is the rate of duty on it?

An hon. Member: I notice it has gone up on rapeseed oil.

The Chairman: It has gone up on rapeseed oil. What is the duty on wheat?

Dr. Annis: Wheat, under the MFN Tariff, is 12 cents a bushel; free under the British Preferential Tariff.

The Chairman: As a practical matter, is it commercially feasible to import wheat into Canada?

Dr. Annis: I believe that small quantities are, from time to time, particularly in feed wheat. To put it in a different way, there certainly have been occasions on which feed wheat has been imported into Canada, in border areas, at least.

The Chairman: I will just ask this one question and then I will recognize you, Mr. Lind.

If we moved to a system of complete free trade in Canada there would obviously be a sweeping away of all these duties protecting the growers of wheat and other grains in Canada. That would follow, naturally.

Dr. Annis: I suppose so; and also, of course, some other controls...

An hon. Member: They would have to be looked after.

Dr. Annis: ...in that wheat and other grains are subject to control under the Canadian Wheat Board Act.

The Chairman: What is the nature of those controls?

Dr. Annis: I think I could answer that, but Mr. Schwarzmann is here and he is much more expert in this field than I am.

The Chairman: Tell us very briefly.

Mr. Schwarzmann: Wheat, oats and barley are subject to import control under the Canadian Wheat Board Act. Permits have to be granted for imports.

Mr. Clermont: By whom—the Wheat Board?

Mr. Schwarzmann: It is administered by the Wheat Board.

The Chairman: Of course, quotas and permits are generally considered a form of protection for domestic producers.

• 1255

Mr. Lind: Is this duty on wheat figured on No. 1 Northern? What about the lower grades of feed grains? What is the tariff on the lower grade of wheat, and on feed grains such as barley and oats? I do not mean registered seed but feeds.

Dr. Annis: In the case of wheat, the same rate of duty, 12 cents a bushel, would apply to any quality. There are separate rates of duty specified for other products. For example, on rye it is 6 cents a bushel; on oats it is 4 cents a bushel; and so it goes.

Mr. Lind: But it does not vary between No. 1 and the feed area?

Dr. Annis: No, sir, it does not. Once they are ground there are, of course separate provisions for mixed feeds and that kind of thing. In the case of grains, no; the same rate of duty applies regardless of quality.

Mr. Lind: Mr. Chairman, I was late for the meeting and this point may have been discussed. If it has I will drop it.

What is the situation on cucumbers, which are of interest to people with greenhouses in the Leamington area?

The Chairman: This question has not been raised. It is five minutes to one. Perhaps you could defer it until we resume this afternoon. We could then continue the discussion without interruption.

Mr. Lind: That will be fine. I will defer it until this afternoon.

The Chairman: Are we in a position to adjourn?

Mr. Clermont: Yes, sir.

The Chairman: We will adjourn until 3:45 this afternoon, or as soon as possible after the termination of Orders of the Day.

AFTERNOON SITTING

• 1555

The Chairman: Gentlemen, I think we are in a position to resume our meeting—unofficially, at least, at this stage. When we adjourned for lunch I believe Mr. Lind was about to ask some questions about cucumbers and related products.

Mr. Lind: Dr. Annis, has there been any change in the tariff on cucumbers and tomatoes coming into this country from, say, the U.S.A. and Mexico in the Kennedy Round?

Dr. Annis: No, sir, not in the Kennedy Round. There has been no change in the tariff on either cucumbers or tomatoes.

Mr. Lind: How long has it been since there was a change in the tariff? Has it been a number of years or has there been another change?

Dr. Annis: The last important change—I think I would be correct in saying the last

change—that affected either cucumbers or tomatoes followed from the 1959 budget introduced by Mr. Fleming following the receipt of a Tariff Board report covering a wide range of fruits and vegetables. The resolutions introduced at that time resulted in changes in the rates of duty on quite a number of fresh fruits and vegetables, some of them up and some of them down. Actually the Tariff Board reference in question originated from the request of the producers. But in order to implement the proposals and recommendations of the Tariff Board where they involved increases in bound rates of duty it was necessary to find compensation within the same field; and actually the removal of the off-season duty on tomatoes in the mid-winter months was part of the compensation for increases in in-season rates. It was at that time that free entry of tomatoes in the months of January, February and March originated. I have given that information from memory, but I think I am correct. Actually, because the question had been raised previously I did bring with me a copy of the 1959 Budget Speech. If you would like to have this information I will find it for you.

Mr. Lind: I would like to have all the details if I may, Mr. Chairman. Am I in order?

The Chairman: If it is something that can be dealt with in a detailed way by Dr. Annis you may wish to consider asking him to prepare it in writing and submit it to you. The reply would then be printed in our proceedings. On the other hand, if you have a relatively brief series of questions, which, you feel, will elicit the same information, you may want to pose them. However, if it is something that can be dealt with by Dr. Annis in a sort of a narrative form in writing, perhaps you may prefer to use that alternative.

Mr. Lind: Mr. Chairman, if I am out of order you can stop me.

As I now understand, the last official tariff change in cucumbers and tomatoes was in 1959, and there is no change in the present Kennedy Round reductions. Am I correct?

Dr. Annis: Yes, sir, you are correct.

Mr. Lind: My other question is this: Are the Ontario Fruit and Vegetable Growers' Association contacting you mainly on behalf of the greenhouse operators, or the tomato and cucumber growers, shall we say, or is it

purely the greenhouse operators who have been contacting you?

Dr. Annis: I cannot answer that question in quite the way that you have asked it. There have been representations from at least two different sources to the government over recent months in the general field of fruits and vegetables. One of these was a group that was speaking primarily on behalf of the producers and canners of fruits, peaches and that sort of thing. Their representations were endorsed by the Canadian Horticultural Council and by some other groups. They did not relate directly to either cucumbers or tomatoes.

• 1600

Other representations have been received by various ministers and government departments, at least some of which have been made public, which originated from the Canadian association of greenhouse operators. I do not have its correct title, but, at any rate, it is the association of greenhouse producers. Those related very directly and specifically to competition from the United States and Mexico—particularly Mexico—on cucumbers and tomatoes with Canadian greenhouse production, and in response to these representations the Minister of Finance very recently directed to the Tariff Board a reference asking it to make a study, and to report on the broad subject of the competition between field-grown vegetables—in particular, tomatoes and cucumbers—and the production of Canadian greenhouse operators.

The Tariff Board very recently published, and has distributed, a notice of hearings on that reference.

Mr. Lind: Through you, Mr. Chairman, may I ask whether the government is at the present time investigating this complaint from the greenhouse operators?

Dr. Annis: Yes, sir.

Mr. Lind: And when they find out all the circumstances surrounding the situation will they be in a position to make recommendations to the Tariff Board?

Dr. Annis: Yes, sir; that is correct. On January 3, 1968, the Tariff Board issued a public notice which included the text of a letter that the Chairman of the Tariff Board has received from the Minister of Finance, referring to these recommendations and

proposing a reference, and the final sentence of it reads:

I would ask the Board to submit its report on this reference as soon as may be consistent with a thorough examination of these matters.

The preceding sentence reads:

If the Board's study should indicate that amendments to the Customs Tariff are desirable, I would request the Board to include in its report recommendations regarding any such amendments.

You will recall that the reports of the Board are made to the Minister of Finance. In effect, they are recommendations to the government. The Board's notice asks that proposals on this reference be filed with the secretary not later than Friday, February 16 1968, and it then goes on to give notice of public hearings, the first of which will take place on April 1st.

Mr. Lind: Thank you, Dr. Annis; and thank you, Mr. Chairman. That gives me the assurance that the investigation is going on.

The Chairman: Thank you, Mr. Lind. Are there any further question on this matter?

Mr. Clermont?

[Translation]

Mr. Clermont: After the Kennedy agreements have there been any amendments either for imports or exports of cheeses, or amendments in tariffs? With regard to exports of our cheeses to the United States, are they still being made by quotas?

[English]

Dr. Annis: I will answer that in respect of the Canadian tariff. No changes arising out of the Kennedy Round are proposed in the Canadian tariffs on cheese.

On the export side of the picture Mr. Schwarzmann or Mr. Burns would be competent to reply.

The Chairman: Mr. Burns, I see you are ready to make a comment.

Mr. T. M. Burns (Director, Section II, Office of Trade Relations, Department of Trade and Commerce): Mr. Chairman, the United States made no reduction in the tariff on cheddar cheese, but they did in fact, in the course of the negotiations, make a number of reductions on specialty cheeses.

The Chairman: Thank you, Mr. Burns.

[Translation]

Do you still have any more questions Mr. Clermont?

• 1605

Mr. Clermont: Yes, Dr. Annis, I think the United States have abolished all tariffs of five per cent or less on a group of products either forest, fisheries or industrial products. Have other countries done the same, having reduced or abolished all tariffs of five per cent or less?

[English]

Dr. Annis: Again the representatives of the Department of Trade and Commerce would be best able to deal with that question.

The Chairman: Mr. Schwarzmann, or one of your colleagues?

Mr. T. M. Burns (Director, Section II, Office of Trade Relations, Department of Trade and Commerce): Mr. Chairman, this is a very difficult question to answer in totality but I think one could say that for most participants in the negotiations the main emphasis was on the 50 per cent linear cut. The United States had this rather special authority under which they could eliminate 5 per cent tariffs or less. But in products of particular interest to Canada I cannot think of any in the EEC or in Japan, for example, where tariffs were abolished altogether even where they may have been at levels of 5 per cent or less. Thank you, Mr. Chairman.

The Chairman: Thank you, Mr. Burns.

Are there further questions on the agricultural sector of the Tariff Resolution?

Mr. Monteith: This is not related to anything in our Resolution, but Dr. Annis mentioned earlier that we did not make any changes or any reductions so far as various types of cheeses are concerned. I wonder whether he would mind indicating just what our present tariffs are on specialty cheeses or cheddar cheese coming in here, and so on.

Dr. Annis: Our MFN rate of duty, that is the rate that applies to all non-Commonwealth countries, is 3 cents a pound on cheddar cheese and that same rate of duty would apply to specialty cheeses. We do not have a list of special rates such as the United States does.

The Chairman: Mr. Lambert?

Mr. Lambert: With regard to fish, Mr. Chairman, there is an extensive number of graduated reductions in many categories of fish. I believe our biggest fish market is in the United States. What generally has been the pattern of the United States reductions with regard to fresh fish?

The Chairman: Before inviting the officials to answer I take it that we agree we have concluded our consideration of the pages dealing with agriculture and that we can move on to the section which follows immediately on fisheries.

Dr. Annis: Mr. Chairman, before we do that could I introduce a correction to what I just said in the matter of cheese? Our basic statutory rate on all cheese is 3.5 cents a pound. There is an excerpt from that which provides for a rate of 3 cents on cheddar cheese. When I read it I gave the excerpt as applying to all cheeses; in fact, it does not. Specialty cheeses imported into Canada would be at 3.5 cents a pound rather than 3 cents.

The Chairman: Mr. Clermont?

Mr. Clermont: In my question that was partly replied to by Mr. Burns I asked also if there was any quota on Canadian cheese shipped to the United States. I know we are on quota, but did this quota increase last year compared, let us say, with 1965 and 1966?

Mr. Schwarzmann: The United States maintains import quotas on cheddar cheese and over the last year or so changes have been made in the U.S. Quota system, including the establishment of a special quota for Canadian-type cheddar cheese, which substantially improve our access to the U.S. market in that particular commodity.

• 1610

Mr. Clermont: Mr. Schwarzmann, are we importing cheese from the United States to Canada?

Mr. Schwarzmann: Yes, we have significant imports of various types of cheeses from the United States but not in the particular area of cheddar, though.

Mr. Clermont: Are they on quota or is it in free quantity?

Mr. Schwarzmann: So far as Canada is concerned there are no quotas on cheese other than cheddar.

The Chairman: Have we completed this segment? If so, I think we can move on to fish. I believe Mr. Lambert had a question on fish.

Mr. Schwarzmann: Mr. Chairman, there was a question on Rhodesian tobacco. I could make some comment concerning that on the question of import control.

The Chairman: Perhaps we could hear from you on that now, Mr. Schwarzmann, in response to a question posed by Mr. Lind.

Mr. Schwarzmann: Yes, Mr. Chairman. There are two basic legal instruments that apply with respects to imports of Rhodesian tobacco. One is the Order in Council of February 10, 1966, PC 1966—289, which places all Rhodesian origin goods under the Export and Import Permits Act and it is government policy not to grant permits for imports of Rhodesian origin goods except in special cases for humanitarian reasons.

In addition to this Order in Council there is the United Nations Rhodesia act, or Rhodesian regulations passed in Parliament pursuant to the United Nations resolutions on Rhodesia, which specifically list tobacco among the commodities embargoed so far as imports into Canada are concerned. This was applied under Order in Council, PC 1967—323 of February 21, 1967.

The Export and Import Permits Act under section 17 provides that no false declarations or misrepresentations shall be made with respect to imports coming under that Act. The customs declarations accompanying shipments of tobacco or other commodities must show the country of origin, not only the country of shipment but the country of origin, of the goods concerned. If there is reason to doubt the validity or the reliability of such declarations, the Department of National Revenue or the RCMP charged with the responsibility for investigating this may require certificates of origin from the supplier.

Finally, if there were to be evidence of evasion, fraud or falsification of documents there are penalties provided under the Act. This would be a criminal offence and there would be penalties relating both to fines and imprisonment.

Mr. Lind: Mr. Chairman, you mentioned Rhodesian tobacco twice. This morning I was talking about tobacco that was shipped from South Africa. Are you now sure that this tobacco came from Rhodesia?

The Chairman: No, in fairness to Mr. Schwarzmann, I think he understood that in addition to information on access to South African markets and the reverse for Canada you wanted some information on the system of controlling unlawful import into Canada of tobacco found to have been of Rhodesian origin. I think it is in that context that he made his report to us.

Mr. Lind: Well, I never mentioned the word "Rhodesian" this morning. I spoke entirely of imports from the Union of South Africa. It was from there that the word "Rhodesian" came into it and Dr. Annis mentioned it.

The Chairman: I think there was some reference to...

Mr. Lind: I agree there was a reference but I never mentioned it.

The Chairman: That may be.

• 1615

Dr. Annis: I think, Mr. Chairman, that probably I must plead guilty to being the first one to mention the word "Rhodesia". My reason for doing so was that I was aware some of the questions or unease about potential imports of tobacco had been coupled with the allegation that there might be, or was, some risk of Rhodesian tobacco coming here improperly and my purpose in mentioning it was to direct attention to the fact that precautions were being taken to make sure that did not happen.

Mr. Lind: Then there is a thorough investigation going on in the Department now to ascertain whether or not this tobacco that was supposed to have originated in South Africa was actually Rhodesian?

Mr. Schwarzmann: Mr. Chairman, I may have misunderstood but I was under the impression that we were asked whether we might provide an indication of the way in which the import control act is administered in relation to possible imports of tobacco from Rhodesia.

Mr. Lind: Of course, I was referring this morning to an actual shipment that took place in 1967.

Mr. Schwarzmann: As far as I know, Mr. Chairman, I do not think the issue has been raised with respect to any of these shipments of South African tobacco as to whether the documentation or the source of origin was

false or involved any evasion of the import control act.

Mr. Lind: If it were found out that this tobacco originated other than from the Union of South Africa, is there any way your department could apply dumping duties or restrictive measures to control the entry of this tobacco into Canada?

Mr. Schwarzmann: Mr. Chairman, I think the question of evasion of the import control act is a completely different issue from the question of dumping. In other words, tobacco is embargoed from Rhodesia, so if it were found that there was some falsification of documents and so on and that the tobacco was indeed of Rhodesian origin, this would be a criminal offence and the penalty would apply.

Mr. Monteith: May I ask a supplementary that seems to fit in here, Mr. Chairman? How could action be taken against such a criminal offence if the documents were falsified, for arguments sake, in South Africa?

Mr. Schwarzmann: How could it be policed? In other words, how could we take action?

Mr. Monteith: Yes, how could we, in this country, police it? We could stop it from happening in the future, but you really could not take any action against past offences.

Mr. Schwarzmann: Actually, we could take action against the importer and the investigation would be carried out through our post in South Africa, if necessary.

Mr. Lind: I have one further question, Mr. Chairman. If this tobacco coming in is further processed in Canada and then shipped on to the United Kingdom, will it not carry an import duty by the United Kingdom?

The Chairman: Not for South African tobacco.

Mr. Lind: I am talking about South African or any tobacco, when it is blended with our Canadian tobacco. Suppose we tax the company or give them an anti-dumping duty tax on this imported tobacco, is there any relief if they export it again? Do they get that duty back?

Dr. Annis: When imported goods are incorporated in products manufactured in Canada and then the product is exported, it is open to the exporter to apply for an export draw-

back of 99 per cent of the duty paid on the imported materials. When he presents the proper documentation he would receive, as a refund, 99 per cent of the duty paid on the materials incorporated in the Canadian goods which are exported.

Mr. Lind: Then, even if we fined these people for bringing in this tobacco, if it were found it had been brought in illegally, they would get it back if it were incorporated in a product and exported to the United Kingdom.

• 1620

Dr. Annis: I think, Mr. Chairman, we need to draw a distinction between import duty, which is levied in the normal course for legal transactions, and a fine which might be imposed for an illegal importation of something, the importation of which was prohibited. That would not be subject to export draw back.

Mr. Lind: I am talking about a dumping duty tax that is levied. In that case would it be permissible for a draw back?

Dr. Annis: Yes.

Mr. Lind: It would?

Dr. Annis: Yes.

Mr. Macdonald (Rosedale): Mr. Chairman, in this connection, if it were established that the South African tobacco had been exported to Canada as part of a marketing scheme whereby the market price of the tobacco in South Africa was artificially affected would countervailing duties of some kind be applicable here in Canada if, in fact, the tobacco was being introduced or the Canadian market below its real cost? I am not talking about the initiative of just an exporter but the initiative that might have been taken by the South African Government.

Dr. Annis: Canada has a provision for the imposition of countervailing duties. It is under section 6(a) of the Customs Tariff under certain circumstances, but the application of countervailing duties is not automatic. Two conditions must be fulfilled before they are applied. First, there must be an export subsidy and, second an order in council must be passed providing for the application of countervailing duties. This is not only a highly exceptional action, it is a provision which, while it is there as a potential protective device, in fact, has not been used.

Mr. Macdonald (Rosedale): It has never been used?

Dr. Annis: It has never been used.

Mr. Macdonald (Rosedale): I see. It required more than administrative action within the Department of National Revenue?

Dr. Annis: Yes, it requires action by the Governor in Council. Possibly I could make one other remark. I am not sure whether it is in order or not, but it seems to me, Mr. Chairman, that in talking so much about this subject we might give a hearer the impression that quantitatively this matter is much more important than it really is. Canada, as an important exporter of raw tobacco to the United Kingdom, has a large continuing market there, but when it comes to tobacco products, be it cigarettes or other things our exports are rather small and it seems to me that the problem of imported tobacco entering into such exports is largely a theoretical question rather than a practical one. Although, in saying this, I guess I am stepping outside my proper field in making this comment.

Mr. Lind: Mr. Chairman, I have one further question. I have always understood that this tobacco is semi-processed before it is exported from Canada. Is that not true?

Dr. Annis: I think we had better refer that question to the Mr. McKay.

Mr. McKay (Agriculture & Fisheries Branch, Department of Trade & Commerce): The Canadian industry has three segments, the growers, the processors and the manufacturers, and although we always call the export commodity unmanufactured, it has been processed by in quite an extensive way. That product could be re-dried leaf tobacco straight or it could be fairly highly processed and there would be so many hogsheads of stems and so many of lamina going out together.

Mr. Lind: Thank you.

The Chairman: I think we can pass on to fisheries. Mr. Lambert, do you have a question?

Mr. Lambert: Yes.

Because of the rather extensive reductions in Canadian tariffs on what I would call, generally, classes of fish, have there been compensating reductions in the American tariff on fish, and particularly on fresh fish, which

naturally represents a good part of the Canadian fish export market?

• 1625

The Chairman: Mr. Schwarzmann or Dr. Annis, or whoever prefers to deal with this.

Dr. Annis: It seems to me, Mr. Chairman, that possibly this question could be dealt with in two segments. Mr. Schwarzmann may wish to go into some detail in response to the invitation to outline the very important benefits which we got on the export side on fish.

Perhaps I might say a little on the other side first. That would seem to me to be a more natural order.

As you know, Canada is a very large exporter of fish and a relatively small importer. The United States is the main export market. Our imports come from a number of sources, such as Norway, Sweden, Portugal, Japan, Peru and the United States, with the latter being the major source in most areas. However, the imports are not tremendously large in relation to our market, or our production.

Mr. Winters referred to the valuable concessions that we got on the export side, and I have no doubt that Mr. Schwarzmann will be very happy to expand on that.

Mr. Winters mentioned that the United States, as our principal market, was removing entirely, on imports of fish from Canada, duties of the order of \$91 million a year. I mention that figure because on the other side our imports are much smaller than that.

Canada, for its part, agreed in the Kennedy Round to provide for free entry of fresh, frozen, pickled and dried fish, and for shrimp. The duties on most prepared and canned fish—and I include in this group sardines, anchovies, herring, salmon, oysters, clams, lobsters and crabs—will be reduced by 50 per cent. On fish oils there is a reduction from 17½ or 20 per cent to 15 per cent.

In terms of 1966 imports the coverage of the Canadian concessions—that is, either reduction or removal of duties—is \$23 million of imports from all countries, and duties are being removed completely on about \$16 million of import trade.

Shrimp is the most important item in our list of concessions. Nearly all of the imports came from the United States, and in 1966 they were a little over \$9 million. They are not very directly competitive with Canadian seafoods.

I may add that Canadian fisheries interests have not taken exception to any of the reductions which we are making in this field, and I think it would be fair to say that they are very very happy with the fact that the reductions on both sides have been so almost universal and so deep. This is an area in which going the limit in tariff reductions on both sides of the border certainly works out to our advantage.

Before closing I might just mention one item on which Canada did not offer any reduction. This is item 12100-1 which relates to what is described as fish preserved in oil, n.o.p. Consequently, you will not find this item in the resolutions. In this case, there is no change in the present MFN rate of 20 per cent. Behind that fact is the further fact that most of the imports come from Japan and that a new tuna canning plant has just come into production at St. Andrews in New Brunswick. It is in the process of acquiring the sea-going vessels to bring tuna to Canada from offshore, some of it from quite distant sources, for canning in this new facility. Some tuna, of course, is already canned on the West Coast.

There is nothing more I need to say on this and Mr. Schwarzmans will no doubt, be glad to fill in detail on what we got on the export side in this field.

Mr. Schwarzmans: Mr. Chairman, in the fisheries sector we obtained the maximum tariff concessions available under United States legislation on all the fisheries products which we export to the United States. The only exception is ground fish fillets which were excluded from the Kennedy Round by the United States. On all the other frozen and salt fish items we obtained either removal of duty where the tariff was 5 per cent or less, or the full 50 per cent cut in the United States. You will see on page 14 of the publication *Foreign Trade* a list of the main items involved. As was mentioned, over \$91 million of fisheries products will be moving to free entry into the United States market, and an additional \$740,000 worth of fisheries items into the United States market will be getting the 50 per cent tariff reduction.

I should mention, in addition, one particular item in which we have at present no trade, or very marginal trade, because of the very high level of the United States tariff and in which, for the first time, we will be able to envisage some quite important future trade. This is the item covering breaded or cooked

fish sticks or fish fillets on which the United States tariff was 30 per cent. It will be going down to 15 per cent. This is a new opening.

There were tariff reductions of some interest to us in the European Common Market on canned salmon and on fresh and frozen trout where the 50 per cent cut was obtained, and one small item in Japan, fish roe. But the big export gain certainly is in the United States market, which is the major market for fish exports, and there we have obtained very substantial cuts, including free entry on a very large portion of the trade.

Mr. Lambert: If I may ask one further question, are these substantial reductions in American tariffs on fish roughly proportionate as between freshwater fish and deep sea fish?

Mr. Schwarzmans: They cover both types.

Mr. Lambert: I see.

Mr. Schwarzmans: All the types of fish which we export to the United States.

Mr. Lambert: That is fine. Thank you.

The Chairman: Are there any further questions on the fisheries segment of this resolution.

If there are not, I suggest we move on to page 34. We have already discussed the tobacco items. If there are no questions on the items immediately preceding, with respect to candy and maple products and other syrups, I suggest we move on to the segment dealing with beverages and fruit juices. I believe Mr. Macdonald was asking some questions about rum. I may have cut him off before he was finished.

Mr. Macdonald (Rosedale): Mr. Annis, as I understand it there has, in effect, been no change in the effective protection against rum importations into Canada? In other words, the 50 cent tariff per gallon proof still remains?

Dr. Annis: Yes, sir; it is correct that there is no change in the effective protection on rum. The 50 cents is the rate under the BP tariff. Under the MFN tariff the protective rate on rum is \$2.

Mr. Macdonald (Rosedale): That pretty effectively excludes my make, I would think.

Dr. Annis: This is a substantial rate of duty but it does not by any means entirely exclude Puerto Rico.

Mr. Macdonald (Rosedale): That is why Bacardi is . .

Dr. Annis: It does get \$2 more than others. It does give Jamaica and the Barbados a rather good edge, which is one reason for their rum selling well on the Canadian market.

Mr. Macdonald (Rosedale): Perhaps you could explain one thing for me. As I understand it, proof is a defined standard. What happens if overproof rum comes in? Does this mean that it is 50 cents plus on this rum?

• 1635

Dr. Annis: Yes, it does. As you say, proof is the defined standard, which is defined in terms of a mixture between distilled water and pure alcohol, and the rates of duty are levied in relation to the proof spirit. If any liquor—this is true of the whiskey in any event—is above proof, then the rate of duty is proportionately more; if it is below proof, it is proportionately less. We have referred, in the case of rum, to the fact that there is no change in the protective component—the protective element. This is not the case with whiskey, gin, brandy and vodka. In the case of those beverages, the protective component, after allowance has been made for excise duties, is being reduced. This applies in the case of whiskey, for example, and this is also true of gin and vodka.

Mr. Macdonald (Rosedale): That is whiskey—"e-y"—15605-1?

Dr. Annis: Yes. The spelling is a carry-over from what is in the tariffs now; we hesitated, I must say, as to how to spell it.

Mr. Macdonald (Rosedale): Is it only the Americans who have two items, "Canadian whiskey" and "whiskey", or do we have the same?

Dr. Annis: We have just the one item for whiskey.

Mr. Macdonald (Rosedale): I presume nobody is competing with us in our own market for Canadian whiskey?

Dr. Annis: I suppose that is correct. In the American market, of course, Canadian whiskey competes with their bourbon.

Mr. Macdonald (Rosedale): And very effectively, too.

27826-3

Dr. Annis: Yes. In the Canadian market, I think the reverse is not true, or, at least, not as true. The big competitor is the Scotch whiskey which enters under the British preferential rate of duty, where the protective margin was already only 50 cents a proof gallon and remains unchanged. In the case of whiskey imported under the Most Favoured Nation Tariff where the protective margin in the past was \$1.00 per proof gallon, the difference between the excise of \$13.00—now \$14.25 since December—and the tariff rate of \$14.00.

Mr. Macdonald (Rosedale): In other words, Japanese Santory got a break out of the Kennedy Round.

Dr. Annis: Yes.

Mr. Macdonald (Rosedale): That is what they say it is in the *New Yorker*.

Dr. Annis: I see. In any case, anything that is classified by the Department of National Revenue as whiskey or gin will qualify for the reduced rate of duty of 50 cents per proof gallon, plus, of course, the same amount of excise that would apply to Canadian whiskey.

Mr. Macdonald (Rosedale): There has been a certain amount of discussion with respect to the labelling of rum which is basically produced in Canada. Did this form any part of the discussion or negotiations with any of the other parties?

Dr. Annis: It did not form any part of the agreement, nor of the formal discussions of the terms of the agreement. Certainly, in conversations which took place between the Canadian delegation and members of the Jamaican delegation the problems which they saw in this field were mentioned and were discussed.

Mr. Macdonald (Rosedale): As a matter of interest, how was it dealt with under the General Agreement, or is it fair to ask you that?

Dr. Annis: I think it would be fair to say that as such, in this respect, it was not dealt with. There are general provisions in the General Agreement that relate to what might be described as unfair or improper trade practices, but certainly there is nothing that relates specifically to the labelling of rum that I think could be invoked in dealing with the Canadian provisions in that respect.

• 1640

Mr. Macdonald (Rosedale): I think, probably, my next line of questioning will be directed to Mr. Schwarzmann. Mr. Annis has already referred to the extensive market for Canadian distilled whiskey going into the United States under an American tariff item, I believe, described as Canadian whiskey and I just wondered how Canadian spirits, generally, have benefited, if at all, from the Kennedy Round?

Mr. Burns: Mr. Chairman, if I may, I might confirm that there are, in fact, two items in the United States tariff. One which deals exclusively with Irish and Scotch whiskey and a second one that deals with others including Canadian whiskey. The rate of duty under the item under which Canadian whiskey is imported was \$1.25 per gallon prior to the Kennedy Round and at the end of the staging the final rate will be 62 cents per gallon, a 50 per cent cut.

Mr. Macdonald (Rosedale): So availability of access has been improved, then, from that standpoint.

There has, at times, been a suggestion that the restrictive listing policies of the provincial liquor authorities might cause the United States to change the rules governing the favourable access of Canadian whiskey to the American markets. Did this discussion form any part of the Kennedy Round negotiations with regard, particularly, to the American rate? Were we a prime negotiator with the United States on that other whiskey rate?

Mr. Burns: Mr. Chairman, we are, I think, practically the only supplier of whiskey under that particular tariff item. I do not have the figures in front of me, but, I am sure it would be 95 per cent. It is true that the United States' delegation raised with us the question of the possibilities for the sale of American whiskey in Canada and discussed with us the techniques of sale of alcoholic beverages in Canada which involve the listing of particular products in provincial liquor commissions.

The Chairman: I might interrupt here and state, for the record, that we have been in a position to proceed officially since approximately 4.00 p.m. I should have noted this earlier.

Do you have further questions, Mr. Macdonald?

Mr. Macdonald (Rosedale): That was my last round, Mr. Chairman.

Mr. Monteith: Mr. Chairman, just as a matter of interest, I wonder if anybody could tell me what is the base of Newfoundland Screech? Is it rum?

The Chairman: I would say this is an internal matter and not directly relevant.

Mr. Monteith: I admitted that to begin with.

Mr. Irvine: Mr. Chairman?

The Chairman: Excuse me actually, I think, Mr. Cameron is next, followed by Mr. Latulippe.

Mr. Irvine: But this is supplementary to what Mr. Macdonald had to say, if Mr. Cameron will permit me.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes.

Mr. Irvine: With regard to the classifications covering different liquors, if we wish to call them that, take for instance, 15605-1, immediately below which there appears in brackets, "(Present rates include \$13.00 excise duty)". I am a little confused on this and I would like to have it clarified. How does it affect the new classifications?

Dr. Annis: I can quite understand your being confused by the present situation. The fact that most people found it confusing is one reason why the change has been proposed. However, under the new classifications—the new proposals—the same rates of domestic taxation will apply to whiskey or other liquors produced in Canada and to those imported into Canada, so the tariff rates set out in the first three columns of this document will apply only to imported goods. They do not apply to domestic. If one looks at the rates for whiskey shown there and at the rates under the column headed British Preferential Tariff we see that duty is 50 cents per proof gallon. The significance of that is on scotch or other whiskey imported from a preferential source the rate of duty will be 50 cents per proof gallon. This is a protective duty, the amount of protection that we have against scotch whiskey.

• 1645

In the past on say, bourbon imported from the United States the protective element of the duty was the difference between \$13 and \$14. In other words, it was \$1 per proof gallon. Under the new Resolutions that is reduced from \$1 to 50 cents. Now, the same

thing in exactly the same terms could be said of gin and some of the other products that are named there. In other cases the story is a little bit different but in each case it is in accordance with the rates set out in the document you have.

Mr. Cameron (Nanaimo-Cowichan-The Islands): My question concerns rather more innocuous fluids. I have noticed a strange variation in the treatment of pineapple juice and other fruit juices. Nearly all of them come in free except pineapple juice and then further down we see that dehydrated citrus fruit juice also is still subject to a tariff. I was wondering why pineapple juice is not placed on the free list along with the other fruit juices.

An hon. Member: The same thing applies to orange juice, too.

Dr. Annis: I think there are two elements in the explanation for that. One element is that under the General Agreement on Tariffs and Trade there is a rule which prevents us from establishing new margins of preference. In other words, where there is no margin of preference on a given fruit juice now we are prohibited by the general GATT rules from introducing one.

Now, in the case of pineapple juice it so happens that in the past the rate of duty under both the British Preferential Tariff and the MFN Tariff, as you see in the third item on that page, has been $7\frac{1}{2}$ per cent—no margin of preference. This means that as we reduce the MFN rate of duty that applies on, say, Hawaiian pineapple juice, the British Preferential rate of duty which would apply on, say, Jamaican pineapple juice can come down by the same amount but no more, so that the proposal is to stage the reduction in both rates at the same pace.

If we go to the next case, grapefruit juice, and the same is true of orange juice, we have a situation where for many years the British Preferential Tariff has provided for free entry. The MFN tariff now provides for a rate of $7\frac{1}{2}$ per cent on grapefruit juice and under these Resolutions that will be reduced progressively to 5 per cent by 1972.

In the case of blended orange and grapefruit juice the present rate under the MFN tariff is 10 per cent and this also will be brought down to 5 per cent so that at the end of the period in each of these cases the MFN rate of duty will be no more than 5 per cent.

In the case of pineapple juice the preferential supplier will pay the same rate. In the other cases he will continue to enjoy free entry.

Mr. Macdonald (Rosedale): May I ask a supplementary? How considerable are the domestic growers of pineapples? What are we protecting with 5 per cent?

Dr. Annis: Our producers of tomato juice and apple juice and people in our Department of Agriculture consider that there is a substantial measure of competition between the Canadian fruit juices, apple juice and tomato juice in particular, and the citrus juices and pineapple juices.

The Chairman: Are you saying that there is not the same measure of competition for passion fruit juice? I see that it is being allowed to enter free. Is it needed to pep up the Canadian public in the minds of the tariff negotiator?

• 1650

Dr. Annis: I think at least an equally important consideration was a considerable degree of confidence that there was not much danger of the competition from pineapple fruit juice ever seriously damaging the passion fruit juice producers.

The Chairman: You mean nothing would wake up the Canadian public?

Mr. Cameron (Nanaimo-Cowichan-The Islands): I do not quite see the force of that argument because it is on pineapple juice that we are applying it.

Dr. Annis: I am sorry; I made a slip of the tongue and said "pineapple juice" when I meant "passion fruit juice."

Mr. Cameron (Nanaimo-Cowichan-The Islands): Oh, I see; passion fruit juice, yes. I still have the same question in my mind that Mr. Macdonald had: just what pineapple growers are we protecting?

The Chairman: I note that there will still remain tariffs both for the Most Favoured-Nation and British Preferential with respect to dehydrated citrus fruit juices and also blended orange and grapefruit juice. Is some of the work involved either in the blending or the dehydrating carried out in Canada at this time?

Dr. Annis: In the case of the dehydrated juices you are quite correct, sir, but in

respect of the blended orange and grapefruit juice is not the situation that they are already free under the British Preferential Tariff?

The Chairman: Yes, I am sorry; I should have amended my remarks. There will remain a 5 per cent Most Favoured-Nation for blended orange and grapefruit and I was wondering whether an explanation of this would be that some of the work of blending is being carried out in Canada.

Dr. Annis: I do not think that is the basic consideration. I think the blended juice would be regarded as standing in the same competitive relationship to apple juice and tomato juice as the straight orange juice or straight grapefruit juice.

The Chairman: One further question, what is "Van der Hum"?

Dr. Annis: That is a liqueur produced in South Africa.

The Chairman: Why would it be a special item?

Dr. Annis: Like one or two other provisions that were referred to this morning, that stems from the Canada-Union of South Africa Trade Agreement of 1932. There has been a special provision for that ever since 1932.

[Translation]

The Chairman: I think Mr. Latulippe has a question to ask.

Mr. Latulippe: My question is similar to that of Mr. Cameron except it is for maple sugar and syrup. Would it be possible to know if there are other countries importing maple sugar besides Canada?

[English]

Dr. Annis: I think, sir, that our main interest in maple sugar and maple syrup was to obtain duty free access or a reduced rate of duty into the United States and in order to assist in getting what we wanted on the export side we volunteered to go to free on imports into Canada. Imports, in fact, are insignificant. I believe the amount was \$3,000 in 1966 and I trust imports will remain rather small even with free entry but if they increase, what of it? We are net exporters of this and I think we can do nothing but gain from the reciprocal removal of duties.

[Translation]

Mr. Latulippe: Do we export more to Great Britain than to the United States? Do we sell

more to the United States than to Great Britain and are the tariffs the same in both cases?

[English]

Dr. Annis: I think Mr. Burns would be in the best position to answer that.

While he is looking for more precise information I could volunteer that the major market is the United States. The objective was to get the maximum concession there.

Mr. More (Regina City): Was that present 50 per cent of their terms?

The Chairman: While this is being looked up so that Mr. Latulippe's question can be answered I want to ask the Committee whether they have any questions on pages 38 and 39 concerning general items, first dealing with forms of liquids, basic perfumes, and then moving to such fascinating items as labels for cigar boxes and railway tickets.

Perhaps Mr. Burns is ready to answer Mr. Latulippe's question.

• 1655

[Translation]

Mr. Burns: Mr. Chairman, our most important market for exportation is the United States because in 1966 we exported approximately \$6 million worth—our exportations to Great Britain during that same time are very small—about \$43,000—in both cases they were free entries.

Mr. Latulippe: Are tariffs to the United States and Great Britain the same?

Mr. Burns: The tariff to both the United States and to Britain are zero now, are nothing, free.

Mr. Latulippe: Zero also. They are the same tariffs.

Mr. Clermont: It is in the fine paper, Sir.

[English]

The Chairman: It would appear that we have no further questions on the beverage categories, and there are none on the categories referred to on pages 38 and 39. I would suggest that we now begin our discussion of a series of items which I think would come under the general heading of paper products and which go from page 40 to 42. I will recognize Mr. Clermont followed by Mr. MacDonald. Dr. Annis, I think I have this grouping correct, have I not?

Dr. Annis: Yes, it seems to me that is a logical grouping.

The Chairman: Thank you. Mr. Clermont?

[Translation]

Mr. Clermont: Thank you, Mr. Chairman. Tariff no. 19201-1 which is shoe carton in rolls or in sheets, paper or carton at least 0.012 inches thick. I think that tariff will be changed from 20 per cent to 5 per cent before 1972, and as I mentioned last week before this Committee, this represents a change of 75 per cent. I am told that in another field, where the same product is used for another purpose, the tariff was changed from 20 to 15 per cent. My question is this. Why, Mr. Chairman, for the same product and for different purposes should there be a differential in the tariff, in the rates?

• 1700

[English]

Dr. Annis: Possibly I should attempt to deal with that question, Mr. Chairman, which is a difficult one. In the matter of general background, we should recognize that the fields of paper and paper products and lumber and lumber products are rather closely related. Both fall within the general forest products group, and this is an area in which over-all, we have an extremely important export interest. This whole group, to some extent, was dealt with as a package which from our point of view was a very important package in the negotiations. The question relates specifically to shoeboard and possibly I should confine myself to that. I mentioned this other only to refer to the fact it is against that background that we must consider shoeboard and some other products.

As Mr. Clermont mentioned, in the Kennedy Round Canada undertook to reduce the most favored nation tariff from 20 per cent, which was the rate applied under a basket classification, the old item 19200-1, to 5 per cent under the new item, which is set out in the Resolutions. This would represent, as he said, a reduction of more than 50 per cent, which is taken as the norm in some respects.

I might say that in introducing this new item into the Canadian tariff, the wording used is taken exactly from the wording of a corresponding item in the United States.

Imports of shoeboard into Canada in 1966 amounted to something of the order of \$500,000, nearly all of which was from the United States; a relatively small amount, about \$20,000, was from the United Kingdom. In the published trade statistics shoeboard is not specifically reported separately, but there was a sample study made by the Department of

Industry which indicated this level of trade. In agreeing to this rate of 5 per cent for shoeboard, a number of considerations were taken into account. One of them was that our exports to the United States, or the United States recorded imports from Canada under their shoeboard item, were comparable in volume to our imports of shoeboard from the United States. The amount recorded in 1966 was \$460,000, which is the figure that I have here. In the special issue of Foreign Trade the amount is given as \$424,000 United States currency.

On this item, the United States used its rounding authority to make a reduction of somewhat more than 50 per cent. They reduced their rate of duty from 6½ per cent to 3 per cent; I might add they did that both on shoeboard of paper and shoeboard of leather.

In the course of the negotiations the American team referred to the fact that trade in this item was approximately balanced. It appeared to be from the statistics in front of us. I am sorry, Mr. Clermont, you had a question?

[Translation]

Mr. Clermont: Dr. Annis mentioned that our exports to the United States in 1966 took \$424,000.00 in American dollars. According to the information I have, I think there were only two companies based in Canada who produced shoe board, and the information I have been given says that the sales of these two firms to the United States have been only in the order of \$75,000.00.

[English]

Dr. Annis: Yes.

The Chairman: I was going to say, Dr. Annis, that you might want to call on your colleagues from Trade and Commerce to clarify that.

Dr. Annis: I think at a later stage we may. They would be in a position to verify what the United States imports statistics say, but I think Mr. Clermont, has a very real point here.

I take it that his figure of \$75,000 is a figure which has been obtained on the basis of a private report from two Canadian producers of shoeboard who regard themselves, and I would imagine, probably correctly, as the only producers of shoeboard, as they would define it, in Canada—Bennett Limited and Millmont Fibreboards. Is that correct, sir?

• 1705

Mr. Clermont: Yes sir.

Dr. Annis: Since the announcement of last June we have talked to these people. Specifically we have talked to Mr. Prescott and Mr. LeBel of Bennett Limited and they told us much the same, and this is, in a sense, new information or additional information to what we had in Geneva at the time of the discussions with the Americans. I think it is fair to say that the impression of the Canadian negotiating team, certainly my own impression, was that the imports of shoeboard recorded as imported into the United States in their statistics would have come from one or the other or both Bennett and Millmont Fibreboards. In fact, it appears that they are from other Canadian sources.

We have heard of a third company that says they make some shoeboard. It may be that the imports into the United States at this special rate of six and three quarters per cent now to be reduced to three per cent consist substantially of what Bennett and Millmont would not regard as shoeboard. This is an area where there is a certain amount of doubt or contradictory information now so that it seems to me, this is a point where, in a sense, both figures can be right if one interprets them correctly. I have no doubt that the American imports under their item are what they say they are. I also have no doubt on the basis of the information which you have been given and which we have been given that most of those imports do not originate from the two Canadian producers who regard themselves as the Canadian producers of shoeboard.

I might go on with this story. As I said, the Americans pressed us very hard to match their rate as reduced to three per cent. The delegation did not recommend that we go that far. On the basis of the information they had and the key part that this and a few other items played in what was a very important sector of the over-all negotiations, where a settlement involved not only the United States for action on shoeboard, which was a small part of it, but also an American decision to go to free on a very wide range of lumber and a substantial range of building boards and building papers and involved also a reduction in the United States rate in shoeboard from 6 and three quarters to 3 per cent. The delegation recommended, and the government approved our recommendations which came to them in block—I don't mean to suggest that the government concentrated

on this one small shoeboard item—that this be done.

In connection with this may I add two or three other points which seem to me to be relevant. The suggestion is that we are being pretty hard on a Canadian producer. I believe that the alleged hardship relates to only one of these producers; the other has not addressed representations of this sort to us although we have heard indirectly that this might result in serious injury to their operations.

• 1710

This is a situation which certainly needs to be kept very closely under review. But in connection with it I might mention two or three factors. One is that both of the Canadian producers, that is, Bennett and Millmont, use most of their production of shoeboard themselves in their subsequent manufacturing operation of shoe findings. Very little of their board goes onto the market. This is one point that I would make. In a sense at least most of them are dealing with a captive market to another branch of the companies' own operations.

The second point that I would make would be that in both instances, and in this case the information which I have relates more specifically to Bennett than to Millmont, the actual production of board is a relatively small part, at any rate in terms of employment, of their over-all operations. In the case of Bennett, on the basis of information that the company gave us, I think that their employment in their board mill, shoeboard and other board, is 60 odd people out of a total employment of the firm of well over 300. In other words it is only about a fifth of their total operation. This is the second point I would make.

The third point I would make would be that the production of shoeboard by Bennett specifically represents only a part of the output from their wet machine, as I think they call it, their wet board machine, which produces not only shoeboard but other boards which are used for such various purposes as the manufacture of luggage and so on, and particularly are used in the automotive trade for making such things as the partitions between the trunk of the car and the inside. This is an important and has been a growing part of the output of their board mill.

Now, viewed against this total background it seems to me that it would be unwise to

jump too quickly to a conclusion that this reduction, large as it is, is going to be seriously damaging to the firm, particularly as the reduction will be staged under the resolution over five steps. It may be that it will be damaging. The company has informed us of their problem, their concern, which we in the Department of Finance have been studying. I know the Department of Industry has been looking into this. The Minister of Finance is very definitely aware that a problem exists here. He has assured the company that their position will be kept carefully under review, as it will be, and this one needs to be watched. But I would suggest that, in all the circumstances, we have time—that there is no occasion for panic. Indeed, the management of the company has not suggested that. We have had discussions with them, they have presented their case very effectively but very moderately and well, and it is being kept under review.

I guess there is more that could be said about this, but I think that that, in a rather disorganized way, is all I would say at the moment.

Mr. More (Regina City): Mr. Chairman, Mr. Annis said we have time. What do you mean by that?

• 1715

Dr. Annis: I mean that the reduction on shoeboard, a reduction which came into effect on January 1st, provisionally, is one from 20 per cent to 17 per cent, and there will be no further reduction in any case until January 1st of next year at which time the rate is scheduled to go to 14 per cent. I think it fair to say that the company concerned is not worried, or not greatly worried, about a tariff level of that amount. Their worry is whether or not they can stand up to competition at the sharply lower rates which would come into effect by 1972 under the proposals.

They recognize that there are potential export opportunities here but they are not sure of their ability to cash in on those. It would require considerable reorganization and probable expansion of their facilities, if they could do that, and in that connection of course adjustment assistance is a potential help in their business.

Mr. More (Regina City): This clarifies it. What you mean is that they have time to face the adjustment.

Dr. Annis: Yes.

Mr. More (Regina City): But by having time does not mean that you could reconsider and renegotiate the item. This is in effect agreed to and...

Dr. Annis: Yes, this has been agreed to. It is part of the package that has been signed and accepted, and I would hope that it will not be necessary to renegotiate the item. I would hope and expect that, but there are provisions in the general agreement that cases of serious damage, serious injury, permit emergency action on a commitment and there is a provision that in special circumstances, an item can be renegotiated.

Mr. More (Regina City): Within the period of the staging or at the end?

Dr. Annis: It would be possible to do it within the period. Alternative compensation would need to be given and this is always a problem, but it does not need to be ruled out, as a possibility if the circumstances are shown to justify it.

Mr. More (Regina City): This is what I wanted to hear.

[Translation]

Mr. Clermont: Mr. Chairman, my next question will deal with fine paper. I note that in tariff item 19750-1 "printing paper" that the basic rate is 22.5 per cent and the consolidation rate on January 1st, 1972 will be 12½ per cent. This will be done in five stages of 2 per cent, per year. And elsewhere, referring to items 19500-1 and 19800-1 you have various changes. Undoubtedly Dr. Annis, you have received representations with regard to secondary Canadian districts producing fine paper. I know that in the Ottawa-Hull area there is a firm which employs a great number of people—I do not know what proportion of the staff is producing fine paper—I know that often the public has felt some apprehension because of a possible amendment in those tariffs. They seem to be fearful of the amendments which would have invoked under these new tariff negotiations.

• 1720

[English]

Dr. Annis: Yes, it is correct sir, that representations have been received in connection with the reductions on fine papers generally and, specifically, in relation to that on the category of printing papers on which the rate is to go from 22½ per cent to 12½ per cent in the five steps as stated.

Number 19750-1 on page 43 I think is the item particularly at issue is it not Mr. Clermont? This is the item which has been the subject of the representations to which I was referring.

In that regard several comments have been made. One I suppose is that people like ourselves outside must recognize that the Canadian producers presumably know what they are talking about and know their business best, when they alleged that they feared being seriously injured by this reduction; but I would point out that this is an area where it would appear that Canadian producers are, or ought to be, reasonably competitive.

There are several reasons for thinking that; one is that for particular classes of fine printing papers, those that are used by producers of magazines and periodicals, which are subject to free entry where the periodical magazine enters free, provision has been made for a number of years for completely free entry; and in fact, the Canadian producers of printing papers have succeeded in holding the great bulk of that business. Against that background there seems to be reason to expect that they ought to be able to hold with a rate of duty that will decline only gradually to 12½ per cent, the bulk of the business in other printing papers.

I would like to add too that this is an area where we are already doing a quite important export business, and where in our foreign markets in the United States at least the rates of duty are being cut by 50 per cent down the line. The United States has one statistical classification which is referred to in *Foreign Trade*—possibly I should be deferring now to my colleague from Trade and Commerce—and that is book paper and printing paper where they have made a 50 per cent cut, or agreed to make a 50 per cent cut in their present compound rate of duty, which is .17 cents per pound plus 4 per cent, and where their imports from Canada, were 20.5 million dollars in 1966. This is, in fact, greater than the total Canadian imports of fine papers under the two present items out of which our new item for printing papers is going to be extracted. We do not know just how much—what volume of imports falls under the new item of which the rate goes to 12½ per cent but we know that it is some part of a total which is a little under \$20 million. So, here we are dealing with an area where we already have very substantial exports of the uncoated printing papers on which the United

States rate of duty is already really quite low and it is being cut by 50 per cent, and where we have some export interest, although admittedly a much smaller one, in the coated printing papers on which the present United States duty is quite high, although not as high as our own and it also is being cut by 50 per cent.

• 1725

[Translation]

Mr. Clermont: The amendments concerning fine paper I presume we have to consider them as against the whole of the forest products. You say that in this field Canada has been advantaged. Is that right?

[English]

Dr. Annis: I think we want to recognize here that we are dealing with both a group and, in the particular case of the 12½ per cent rate, an item which is extracted from that. On fine papers generally our rates of duty will be going down to 15 per cent; in this one particular case on these printing papers to 12½ per cent. The imports are substantial now, and one cannot be sure that they will not grow. In fact, there is reason to expect—and I think the general view is to hope—that the reductions in these rates of duty will cause a certain amount of restructuring and specialization in the Canadian industry resulting in reducing costs of production and reducing prices.

This is an area where there is a difference of interest and a difference of view between producers and users of paper. The graphic arts people very much welcome the reductions that are proposed on these products while we have had representations, particularly from one company not far from here, regretting the reduction. Certainly there have been representations from others who suggest that the cuts in duty in this area might well have gone further to the advantage of users.

The Chairman: Mr. Clermont, may I put forward a procedural question for the moment?

[Translation]

Mr. Clermont, may I ask a question concerning procedure?

Mr. Clermont: Of course.

[English]

The Chairman: I was wondering whether the Committee might want to give consideration to having a session tomorrow afternoon

after the Orders of the Day. We have scheduled our first outside witness for Thursday afternoon. Of course, there is no reason why we cannot return to this detailed review of the tariff items between hearing witnesses from outside. On the other hand, it may well be that if we have a session tomorrow afternoon we might be able to complete our consideration in the morning session on Thursday. I am just wondering what the reaction of the Committee is to this suggestion. I raise this now, because obviously we will have to arrange for sending out our notices tonight. Does anyone care to make a comment?

● 1730

[English]

The Chairman: With the support of the Committee I will ask the Clerk to arrange to send out notices for a session tomorrow afternoon. Those who are here who are concerned will...

[Translation]

Mr. Clermont: I said Mr. Chairman, that personally I would not object. But if the other members of the Committee have any objection, of course I will go along with the majority.

The Chairman: I believe that most of the members support this stand. I wish to thank you very much for having allowed me to put this question of procedure. Please go on with your questions.

Mr. Clermont: My last question concerning the forestry products is addressed to Mr. Schwarzmänn, I think. It concerns the tariff that the United States are imposing on number 207.00, Articles of wood not specially provided for. The present rate is 16½ per cent and in X years it will be 8 per cent. In these various wood products which are not specifically enumerated could we have two or three examples of these products? Would the production of flooring wood fall in this category? Floors for railways, for example.

Mr. Schwarzmänn: Mr. Clermont, this bears on a much more important range of products of various manufactured wood products. It is justifiable that it should come under a rather high tariff. It is one of the reductions which will be extremely useful for a whole series of productions in many areas of Canada. This includes, for example, all kinds of products like those used in prefabricated houses, or prefabricated kitchen cupboards.

Mr. Clermont: But in the case I have mentioned, Mr. Schwarzmänn, the hardwood

used for the floors in the railway cars used for the transportation of merchandise, would this wood come under the tariff?

Mr. Schwarzmänn: Are you speaking about the floors for railway cars?

Mr. Clermont: I speak about railway cars.

Mr. Schwarzmänn: I do not know exactly what you...

Mr. Clermont: In order not to delay the proceedings, Mr. Schwarzmänn, perhaps you could obtain the information and I could have it either tomorrow afternoon or Thursday morning. If we are not dealing with item 207, I would like to know what item we are dealing with?

The Chairman: Are we dealing with the tariff concerning paper or printing paper? This may open a tariff door.

Mr. Clermont: I have finished my questions, Mr. Chairman.

The Chairman: If you have finished, Mr. Clermont, I will recognize Mr. Macdonald.

[English]

Mr. Macdonald (Rosedale): I presume that woodpulp would be à propos now, would it? There is obviously no Canadian tariff item for woodpulp, but it is with respect to the exportation of it that I am concerned. Could I ask some questions which they might like to take as notice to deal with at a future date?

I am referring to *Foreign Trade* of July 1, 1967, page 28, "Major EEC Tariff Reductions of Interest to Canada", Brussels Tariff Nomenclature Item 47.01 B.I & II with respect to woodpulp of which there were over \$26 million worth of exports from Canada in 1964. I am referring particularly to the duty free quota of 1,935,000 metric tons, and I have several questions. Firstly, does that apply to Canada only, or is that from all sources? How is the quota allocated, firstly among importing countries and secondly among exporting countries? Thirdly, by whom is it allocated; and fourthly, is that a brand new quota, or has there been previous experience there?

Because it poses a similar type of problem, perhaps I could make the same reference to item BTN 7601-A relative to primary aluminum, which has a 130,000 metric ton quota at a lower rate of tariff of 5 per cent. I am more particularly concerned with aluminum and about what is the effect of new entrants into the field among exporting countries.

• 1735

How do you determine the allocation of quotas, or how is it determined by, I presume, the EEC?

Perhaps it might be more useful if I just left that on the record. They might be in a better position to answer it at a future date.

The Chairman: Aluminum can be dealt with when we consider metals.

Mr. Monteith: Mr. Chairman, for my own information, under what item would furniture appear?

Dr. Annis: In the case of the Canadian tariff, Item 51901-1 at page 100.

Mr. Monteith: Thank you.

Dr. Annis: Items 51901-1 and 51902-1.

Mr. Monteith: That is all I wanted to know.

The Chairman: Mr. Schwarzmann, would you care to deal with the first part of Mr. Macdonald's question on quotas?

Mr. Schwarzmann: Yes. The quotas on woodpulp and on aluminum apply to all suppliers, not just to Canada. The woodpulp quota is unchanged from the existing or pre-Kennedy Round quota for woodpulp. The aluminum one is a new concession—a new commitment—in the Kennedy Round. I am not in a position to reply to the question of how the quota is allocated, but we will look into the details of this on the wood pulp.

The Chairman: Perhaps this could come back to the Committee later on.

Do you have further questions, Mr. Macdonald?

Mr. Macdonald (Rosedale): No, Mr. Chairman.

Dr. Annis: We could reply to Mr. Clermont's question on wood flooring for railway cars. We have quickly checked this. It comes under a different item, not under general manufacturers' of wood. It is an item now at 10 per cent and will be going to 5 per cent in the United States.

Mr. Clermont: What is the tariff item number?

Mr. Burns: It is 20254.

Mr. Clermont: At the end of December it was 10 per cent, and it will come down to 5 per cent in how many steps?

Mr. Burns: Mr. Chairman, this item was dealt with in a separate negotiation with the United States. It is due to reach the final rate of 5 per cent in December 1970, I think, and because the negotiation took place somewhat earlier than the Kennedy Round it began its reduction somewhat earlier.

Mr. Clermont: It deals specifically with hardwood flooring for railway cars?

Mr. Burns: It deals with drilled and treated hardwood lumber, which, as we understand it, is the classification for the kind of material that you are mentioning, Mr. Clermont.

Mr. Clermont: Thank you.

The Chairman: Are there further questions at this time on paper and paper products?

If not, I suggest that we move along. Are there any questions on the items listed on page 45? These deal with soap powders and glues of various sorts.

If not, we can move on to pages 46, 47 and 48, which deal with various types of oils, mainly, if I am not mistaken, vegetable and fish oils of various kinds.

Dr. Annis: Yes, that is correct, Mr. Chairman. The greater number of the items here deal with vegetable oils and oil seeds and involve the simultaneous implementation of the recommendations made in a report by the Tariff Board on this subject and of the concessions granted in the Kennedy Round.

The Tariff Board recommended a rather extensive revision of the nomenclature and arrangement of the items, and some reductions in rates of duty in this area. Because they had recommended reductions in rates of duty we found it desirable to offer these proposed new rates as concessions in the Kennedy Round. These were accepted as concessions by our trading partners, were incorporated in the schedule and appear here.

• 1740

The arrangement is as recommended by the Tariff Board in a report on vegetable oils. It involves reductions from 20 per cent to 17½ per cent on a considerable range of refined oils. In other respects it is largely rearrangement rather than reduction.

The Chairman: I am not speaking in any way, critically of the change, Dr. Annis. I am merely asking the question for clarification. It appears that some items that were free under the previously-existing tariff will have duties

placed upon them for entry into Canada under this new set-up. I am looking at the rapeseed item, for example. I do not say this is not appropriate. I just thought perhaps this might be explained because of the fact that many people have the idea that the negotiations brought about only reductions in tariffs.

Dr. Annis: It is true that in this area there were some increases in rates as a result of what was done. Such increases in rates usually related to goods that were provided for formerly in end-use tariff items which have been abolished. In the particular case of rapeseed, I think possibly the situation is the reverse of what you thought—that there is a duty now.

The Chairman: I did not say that. I said that there appears to be no duty now, but that there will be a series of duties. . .

Dr. Annis: For the rapeseed oil, yes. On that particular product it was a case of bringing the rate into line with that on other similar oils. There was a certain amount of evening up and evening down to achieve a more orderly and rational organization of the rates involved. As I say, this did involve some increases. It involved more in the way of reductions, but these are not sufficiently striking that they have occasioned any particular concern to the Canadian producers.

The Chairman: Are there any further questions on oils? If not, I suggest we take a look at pages 49, 50, 51, 52 and 53, which seem to deal with products of earth and clay and also with some types of stone. I believe this would be a convenient grouping at this time.

Dr. Annis: It appears to me to be a convenient grouping. It is an area where, in terms of representations, everything has been pretty quiet. This seems to have been taken in stride very well indeed by the affected Canadian interests.

One point possibly worth making in this context is that as regards cement—most of it, at least—both the United States and ourselves will be going to free entry on all the important products. After 1972 there will be two-way free trade in cement and lime with the exception of one rather minor item on which the United States was not in a position to go to free because of the limitations on their authority.

The Chairman: Does the Committee have any questions at this time on this grouping of items?

If not, I suggest that we look at page 55 which appears to deal with glassware.

Are there any questions or comments on the items on page 55?

• 1745

If there are no questions, perhaps we should take a look at the next grouping which appears to deal with quite a series of metals and goes on to page 61, if I am not mistaken.

Dr. Annis: Yes, sir, that is correct. One comment that I would like to make here is that the Committee will note, with regard to some basic metals which are important in our export trade but relatively unimportant in our imports, we propose to go to free entry, which is the case in respect of primary lead, primary zinc and primary copper.

Mr. Macdonald (Rosedale): With regard to item 33910-1—collapsible tubes of lead or tin or lead coated with tin, I notice the margin of preference is being reduced. Have you had representations either from British producers or from Canadian subsidiaries of British producers on this question?

Dr. Annis: No, sir.

Mr. Macdonald (Rosedale): This is basically toothpaste tubes, is it not?

Dr. Annis: Yes, sir. It is tubes of that sort. I might add that this is an area where, of course, other metals are used, to some extent, such as aluminium.

The Chairman: Do you have other questions? I presume, Mr. Schwarzmans, even though we do not call upon you directly, that the equivalent concessions have been won for Canada with respect to the grouping we are on now, and the two preceding groupings.

Mr. Schwarzmans: Yes.

The Chairman: Both with respect to earthenware products and . . .

Mr. Schwarzmans: I think that, in general, those are items in which we have an important export interest and in most cases we have obtained concessions.

The Chairman: My point is simply this; that even though members of the Committee have not seen fit to question you directly, generally speaking as we move through each category, if the question were put to you, details could be brought out on the concessions won for Canada in the same category.

Mr. Schwarzmans: Yes, that is right.

The Chairman: What I am driving at is that people may be following our proceedings and may not be aware of the fact that we have these concessions because members have not seen fit to pose specific questions. I am not inviting them to do so. We should perhaps put this on the record.

Mr. Clermont: But, Mr. Chairman, we will be allowed to ask some general questions of Mr. Schwarzmann or members of his staff?

The Chairman: It was my thought that after we went over the various categories and worked through this very long resolution from page 147 approximately, then if there are any general questions not yet taken care of or n.o.p., as they say in the tariff world, we could direct them to Mr. Schwarzmann and Dr. Annis.

Dr. Annis: Mr. Chairman, it occurs to me, in this connection that it might be worth noting that Mr. Jean-Paul Drolet who happens, I notice, to be here this afternoon, was in Geneva for part of the negotiations. He is the Assistant Deputy Minister of Mines and Resources and when the discussions involved this group of metal items and parts, he was very directly involved in the negotiations of that group. I think it is correct to say that he and his Department were rather pleased with the results achieved in this field.

The Chairman: Mr. Drolet is shaking his head affirmatively.

Mr. Macdonald (Rosedale): I notice that he is sitting at the press table here.

The Chairman: That is the reason maybe, that this Department issues its own publication on minerals of Canada, which I personally found most helpful in following the changes with respect to this responsibility.

Mr. Macdonald (Rosedale): I am not sure if this is the appropriate time to ask a question about uranium oxide. Presumably there is no Canadian tariff item, but it is a metallic chemical.

Dr. Annis: I think that we have a provision for free entry for that. We will check and confirm it.

• 1750

The Chairman: Did you have further questions about aluminum or did Mr. Schwarzmann's answer deal fully with that?

Mr. Macdonald (Rosedale): No, that was fine. I understand that in due course I will be able to ask a question about uranium oxide? Or more particularly as related to the American tariff.

The Chairman: I believe that they are checking the answer to it right now. Perhaps we could deal with that question and then we could adjourn until tomorrow afternoon.

Mr. Macdonald (Rosedale): My question was with regard to United States Tariff Item No. 42250 and I notice that there were \$12,933,000 worth of Canadian exports in 1966. Under what agreement was that export of uranium oxide carried out? This is not something which normally passes in trade and I understand that we had no more deals with the Americans on uranium oxide.

Mr. Schwarzmann: I do not know what the answer is.

The Chairman: Would you like to deal with this now or would you prefer to wait until the morning?

Dr. Annis: I must say that the item I had in mind when referring to uranium oxide reads: "Deuterium oxide or heavy water; and uranium in the form of pigs, ingots, billets or bars.". It does not specifically mention uranium oxide.

The Chairman: Dr. Annis, if you like you might look into it further before our session tomorrow afternoon.

Dr. Annis: This provides for free entry.

The Chairman: This provides for free entry.

Gentlemen, I think it would be appropriate if we adjourned until after Orders of the Day or 3.30 whichever shall first occur. I believe our notice today said 3.45 as does our notice for next Thursday afternoon, but I think in the past we have actually had the notice read 3.30 with the understanding we would assemble as soon as possible after Orders of the Day ended, to avoid losing about 20 minutes in getting together which often would otherwise happen.

Before adjourning I think I might, on behalf of the Committee, say a word with respect to the unfortunate passing of Committee member René Tremblay. I think it was a shock to all of us. He participated rather

actively in the work of the Committee during various periods and I know that you would want me to express on behalf of all of you our condolences to the family of Mr. Tremblay.

[*Translation*]

I believe that I am talking for each and everyone of us when I express for the whole

committee our deepest sympathy to the family of Mr. Tremblay, a former member of this committee.

[*English*]

Gentlemen, I think it would be appropriate now if we adjourn until tomorrow afternoon.

APPENDIX H

*Tariff Item 13500-1: Raw Sugar for Refining
Canadian Imports in 1966*

	<i>Imports</i>	<i>Duty</i>	
	(\$000)	(\$000)	(%)
Jamaica	6,227	656	10.5
British Guiana (Guyana)	6,167	699	11.3
Rep. South Africa	6,116	811	13.2
Australia	5,696	735	12.9
Mauritius	5,127	622	12.1
India	2,938	356	12.1
Fiji	2,705	294	10.8
Trinidad-Tobago	1,877	201	10.6
Rhodesia	807	104	12.8
Barbados	797	75	9.4
Leeward-Windward Is.	555	51	9.2
British Honduras	484	49	10.1
British Preferential	39,496	4,653	11.8
Cuba	2,843	1,912	67.2
Mexico	557	274	49.2
	42,895	6,840	15.9

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1968

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS
Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 17

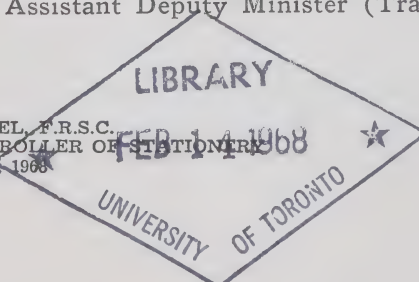
WEDNESDAY, JANUARY 24, 1968

RESPECTING
Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

*From the Department of Finance: Dr. C. A. Annis, Director of Tariffs;
Mr. J. Loomer, Tariff Division. From the Department of Trade and
Commerce: Mr. M. Schwarzmann, Assistant Deputy Minister (Trade
Policy).*

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968



STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hees,	McLean (<i>Charlotte</i>),
Beaulieu,	Irvine,	Monteith,
Cameron (<i>Nanaimo-</i>	Laflamme,	More (<i>Regina City</i>),
<i>Cowichan-The Islands</i>),	Lambert,	Noël,
Cantin,	Latulippe,	Thompson,
Comtois,	Lind,	Tremblay (<i>Matapédia-</i>
Flemming,	Macdonald (<i>Rosedale</i>),	<i>Matane</i>),
Gilbert,	Mackasey,	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

Acting Assistant Clerks:
Fernand Despatie (Printing),
Michael A. Measures (Documents).

MINUTES OF PROCEEDINGS

WEDNESDAY, January 24, 1968.
(22)

The Standing Committee on Finance, Trade and Economic Affairs met at 3:55 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gray, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Monteith, More (*Regina City*), Noël—(11).

In attendance: From the Department of Finance: Dr. C. A. Annis, Director of Tariffs, Mr. J. Loomer, Tariff Division; *From the Department of Trade and Commerce:* Messrs. M. Schwarzmann, Assistant Deputy Minister (Trade Policy); J. L. MacNeil, Office of Trade Relations.

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff resolution.

Messrs. Annis, Schwarzmann and Loomer were questioned on tariff reductions in the fields of metals, iron and steel products, wire and wire products, machinery, cutlery, tools, locomotives, automobiles and auto parts, boats, aircraft and aircraft engines, guns and heavy electrical apparatus.

The questioning continuing, at 6:00 p.m., the Committee adjourned to 11:00 a.m., Thursday, January 25, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

January 24, 1968.

• 1552

The Chairman: Gentlemen, I would like to call the meeting to order.

When we adjourned last night we were just completing our consideration of the items up to page 60 and I believe that before we leave this section and move on, Dr. Annis would like to make some general comments to help clarify the impact of these particular changes. Perhaps with respect to each section of your comments you could refer to the page number in the Resolutions so we know where we are.

Dr. C. A. Annis (Director of Tariffs, Department of Finance): Yes, Mr. Chairman, I would be glad to make some general comments about the major groups of items which are included in this very broad category which is before the Committee now. I think that probably three groups are worth mentioning separately. They would be aluminum, iron and steel products, and then wire and wire products which, of course, are a subdivision I suppose of iron or steel but worth mentioning separately.

• 1555

Dealing with aluminum first, the Canadian duty on aluminum pigs, ingots and billets would be reduced from $1\frac{1}{4}$ cents per pound to 1 cent per pound. I might say in this connection that Canada would have been glad to go further on this item if it had been possible to persuade our trading partners to do so also; but since this was the maximum cut which it was possible to get the United States to agree to, we merely matched their cut rather than going further on this particular item. The duty on aluminum bars, rods, plates and sheets is cut by one-third from three cents a pound to two cents a pound. On aluminum sections, shapes, pipes and tubes it is cut from $22\frac{1}{2}$, a rather unusually high rate in this field, to $12\frac{1}{2}$ per cent which brings it more properly in line with other related items. On aluminum leaf there is also a deep cut from 30 per cent to 15 per cent which again is pretty well in line with other related items. On aluminum powder the cut is from $27\frac{1}{2}$ to

15 per cent. On manufactures of aluminum, including household hollow-ware, the reduction is from $22\frac{1}{2}$ per cent to $17\frac{1}{2}$ per cent. As far as the export side of this is concerned, I think the matter was pretty well covered by Mr. Winters and Mr. Schwarzmann previously and that I need say no more about aluminum. I would go directly to the iron and steel products if that is acceptable.

I you want to refer to the Resolutions these items begin really at page 64. I think pages 64 to 67 are relevant.

Mr. Lambert: May I ask one question? On page 61, item 36210-1, would it not have been possible to sort of modernize the description of the articles that appear. I was just wondering where on earth, for instance, do button hooks chiefly made of silver appear in world trade today? They would be, I think, in the category of the dodo bird. The same thing with shoe horns.

Dr. Annis: It might have been possible to modernize it but to do so would have involved a problem which on this item and on a good many other items we did not care to face. The present rates of duty on this item, as on a great many other items, are bound under previous agreements. Amending the wording, which would have consequential changes and possibly very slight consequential results for rates of duty, in many instances would have involved going back and renegotiating old commitments with those to whom they had originally been made. This is always a problem. Also sometimes one can get into unexpected difficulties if you start striking out words which you think are obsolete without being very sure of your ground. There have been occasions when this has happened to us.

Mr. Lambert: In other words, once they are inscribed in forms or agreements they might as well be on Moses' tablets of marble.

Dr. Annis: I do not think it is quite that bad, although certainly there are inscribed in today's tariffs a great many words which are completely out of date and are known to be

out of date and frequently nothing is done about it.

Mr. Lambert: I would have thought this was a wonderful opportunity to clean up a lot of this.

The Chairman: Maybe they will receive representations from the button hook interests.

Dr. Annis: In this case we did not but within limits, this did provide an opportunity for doing some cleaning up and within limits we did make use of that opportunity. For one thing, there are quite a few instances now where you have an item that covers a broad category of goods and then two or three excerpts from that, which were established under previous agreements, providing for a minor reduction on this or that special product which, in the past, was of interest to Haiti or the United States or some other country, large or small. In this negotiation a real effort was made to bring down the basic rate in such cases, leave these little excerpts as they had been before which, in many instances, means that either now or by 1972 they can be struck out of the tariff. Actually, these resolutions do provide for striking quite a few items out of the tariff and not reinstating them because it has become unnecessary to reinstate them because they can disappear.

• 1600

By 1972 it will be possible to do this with a much larger number of additional items and at the official level we at least are looking forward to being in a position to recommend the disappearance of quite a number of such items either in January, 1972 or, in some instances, at an earlier date and I think you will find that in the budgets of the next two or three years quite a few such items will disappear. They will no longer be required.

Mr. Lambert: On reflection I can see where you could have got into trouble because it is my understanding that there are certain modes of dress which are reviving—shall we say Edwardian dress and, perhaps, older dress where such articles may be of some use, so I think we had better leave them on the tablets of Moses.

The Chairman: Dr. Annis, before you begin your comments on iron and steel products, perhaps I should ask the Committee whether they have any further questions on pages 60, 61, 62, or 63. I see there is a grouping on

watches and watch movements. If there are no questions or comments on the items on these pages, then we can invite you to make your comments on iron and steel products beginning, I believe, on page 64.

Mr. Ballard: Mr. Chairman, I want to ask a question of Dr. Annis before we move on. He made the comment when he was discussing aluminum—I think it was aluminum ingots—that a certain reduction had taken place and that it would have been the Canadian wish that a greater reduction could have taken place. I am wondering, just for my own information, speaking in general terms whether there were many concessions made to Canada, did we get no concessions, or were we more or less even with other countries such as the United States in so far as concessions were concerned.

Dr. Annis: In respect of aluminum we did receive concessions over a very wide area. In the particular case of aluminum ingots we very much would have liked to have received a 50 per cent cut by the United States and by a number of other countries including the EEC; in fact, they were not prepared to agree to such a deep cut and this was the point to which I was referring.

We did receive concessions, indeed very substantial concessions, in this field and I am sure that Mr. Schwarzmann would be glad to go into further detail if you wished him to do so.

Mr. Ballard: I would just like to know in general terms, without even mentioning any of the particular areas, whether it was the attitude of our negotiators that they came out of the negotiations with the feeling that we had received fair treatment through the GATT negotiations.

Dr. Annis: Certainly my own feeling and, I am sure, that of all members of the Canadian negotiating team, was that we came out very well indeed. That does not mean, of course, that we got everything we would have liked and it does not mean that we did not get some things we would have preferred not to get, but by and large the view was that we landed very well indeed.

Mr. Ballard: That is fair enough.

The Chairman: If there are no further questions on the pages to which I have referred, perhaps you can begin your comments on iron and steel products.

● 1605

Dr. Annis: What I will refer to here, then, are the reductions made in the Canadian rates of duty on iron and steel products. There are reductions on a considerable range of such products. The duties are removed from pig iron and from ingots. The 15 per cent rate on bars, rods, sheet and strip of iron or steel is reduced to 12½ per cent. I might add that in most cases these reductions are staged, so when I refer to 12½ per cent I am referring to the rate that will come into effect in 1972.

The duty on plate is reduced from 20 per cent to 15 per cent; in some cases it is now 15 per cent and those will go to 12½ per cent.

The duty on forgings, axles, chains and for the general "basket" items covering manufactures of iron or steel not otherwise provided for will be reduced from 22½ per cent to 17½ per cent. For pipes and tubes the basic rate of 20 per cent is being reduced to 17½ per cent. There are some other items providing already for lower rates on oil field equipment.

It might be of interest to give in summary form the coverage of these various reductions. The total coverage in the group—coverage in terms of imports from MFN countries—is about \$75 million per annum. Of this pig iron and ingot represent \$3 million; ferro-alloys about \$2 million; sheet, strip, bars and rods \$24 million; rough castings some \$10 million; pipes, tubes and couplings about \$31 million.

I think that is all I need to say at the moment, at least about the basic industry, and I would go on to remark that the Tariff Board recommendations that were made in the report on wire and wire products are being implemented.

The Chairman: If you are moving to wire products perhaps we should stop here and see whether there are any questions. Mr. Lambert?

Mr. Lambert: Yes, I am interested in finding out, and perhaps Dr. Annis could tell me, whether there were negotiations or considerations concerning railroad spikes, scarifier teeth and dozer blade edges.

Dr. Annis: May I leave railway spikes aside for the moment; there is a special item for them and we will refer to it in a moment. Scarifier teeth and dozer blade edges are included with, and are regarded as parts of, the machines to which they are fitted and they will come under the great big broad

item, the new item 42700, as machinery under the machinery plan.

So far as railway spikes are concerned, they are included in an item that relates to spikes and certainly big nails. It is Item 430301 on page 75 of the Resolutions, railway spikes, and from a rate of 30 per cent it will be scaled down to the rate which is in line of 17½ per cent. Concerning imports, I might point out that imports under that item are rather small as one would expect from the level of the rate. Wait a moment, I think I can give you a figure. In 1966 total imports were \$10 thousand.

● 1610

Mr. Lambert: The reason I am asking that is that I want to lead into seeing what the United States has done in parallel action, because this is part of a more continental trading pattern. As you know, in Edmonton there is now a considerable branch plant of Stelco, formerly Premier Steel, which had developed a very extensive Canadian market, even in Eastern Canada, for these three items to which I made reference.

To scale the duty down from 30 per cent to 17½ per cent may provide sufficient margin to encourage imports from the United States, and we would then look for a compensating market in the North, Central and Northwestern states.

When we come to oil country goods I will talk about sucker-rods. I want to see what has been done about sucker-rods, because whereas we admitted sucker-rods free under the oil country goods originally, when this industry was developed in Edmonton and we could service the Williston Basin of North Dakota with these, we faced a 22½ per cent American duty. This is the sort of pattern that I am looking at.

Dr. Annis: Yes. It seems to me that you are quite right in wishing to look at this as a whole, and also to look at what we got on the other side. In advance of Trade and Commerce representatives supplying the figures on exports, may I make two comments.

First, to anticipate the matter on sucker-rods, as you said, when Western producers went into sucker-rod production some years ago...

Mr. Lambert: I think the Canadian tariff change was about 1960 or 1961.

Dr. Annis: I think you are correct, sir.

Mr. Lambert: We voted for 10 per cent.

Dr. Annis: Yes; that corresponds with my memory of it. I recall quite clearly that the rate of duty had been free, but when they went into production we conducted certain re-negotiations in order to make possible the imposition of a rate of 10 per cent. This was done, and it seems to have worked out very well. I might add that no change is being made in that rate as a result of the Kennedy Round.

To come back to the matter of railway spikes—and with them I think one should mention railway rails and other nails and spikes, recognizing that Premier Steel may not be in the railway rail business—here a certain amount of rationalization is being done. That 30 per cent rate of duty on railway spikes stuck away way out—it was one of the mountains in the hills and valleys of the Canadian tariff. It is a mountain that has been lopped off to some extent, and at the same time no change has been made on some related items which now bear relatively low rates of duty.

I might add that no change is being made in the rate of duty on railway rails, which already is relatively low. Railway rails, of course, was an item of great interest to Dosco. Our recognition that Dosco had difficulties—we did not realize at the time possibly how great they were, but we knew they had problems—was one of the elements in the situation which accounted for the fact that no change was made in the rate on railway rails. I might add, it also accounts for the fact that no change was made in the rate on rods for fire-drawing and this sort of thing—an item of great interest to Dosco, and in respect of which they had been facing serious competition from Europe, just as West coast producers in Vancouver and Edmonton had from Japan.

● 1615

The Chairman: Are there any further questions on pages 64 to 67 dealing with iron and steel products?

Mr. M. Schwarzmann (Assistant Deputy Minister (Trade Policy) Department of Trade and Commerce): Do you wish to have the United States rates on those. . .

Mr. Lambert: Yes, on those particular items; and what may have happened in regard to them.

Mr. Schwarzmann: As a generalization, we obtained the full 50 per cent cut in the United

States tariffs over that whole range of items. There are quite a number of tariff items covering these products. To give some examples, there is a general item covering mechanical shovels, coal cutters, excavators, scrapers, bulldozers, and so on, and parts thereof, and in there you have the blades and scrapers for bulldozers and so on. They will go from 10 per cent to 5 per cent.

There are a number of tariff items covering spikes, depending on the length and the material involved. In general, the main rate reductions seem to be from .2 cents a pound to .1 cent a pound.

The Chairman: Is there anything further on this? If not, do you wish to comment on wire products, Dr. Annis?

Dr. Annis: Yes, Mr. Chairman. The wire and wire product items to which I will be referring begin at the bottom of page 68 and continue through 69.

If members of the Committee will look at tariff items 40101-1 to 40130-1 inclusive, these are the items which contain the principal tariff changes which are required to implement recommendations made by the Tariff Board under reference number 132. In this reference the Tariff Board was asked to review all the items in the tariff relating to wire and wire products both ferrous and non-ferrous.

The Tariff Board's recommendations and these Resolutions, which, in the main, implement those recommendations, provide for simplified tariff structure. It is proposed to introduce 12 new and revised items to replace or consolidate 38 former items.

I might mention that this is a case in which we are doing something similar to what Mr. Lambert was just advocating, in terms of simplifying and improving—modernizing—the tariff structure.

In this case, as in a number of others, it has followed a Tariff Board reference and a complete review of a sector of the tariffs. It is usually in such circumstances that it is easiest to accomplish a revision and modernization of this sort. It means that a whole sector is looked at as a group and this presents an opportunity for introducing a rationalization that usually involves not only reductions in tariffs but also some increases. If one seeks to consolidate a number of items one nearly always increases some rates at the same time that one is reducing others, and if the items on which increases are taking place are

bound there is a need to re-negotiate present commitments.

It is nearly always easiest to accomplish this when one has either a balanced package or a package which on balance involves reductions. If the package is of the latter sort there are great advantages to using it, if practicable, in trade negotiation and to trying to use it as an occasion to secure reductions in other countries' tariffs in which we have an interest.

I might say that of the 12 new items three involve merely technical changes. The remaining nine involve some increases and some reductions; but the reductions definitely overbalance the increases; and this is the reason why it was possible, and from our point of view, desirable that this group of items be thrown into the Kennedy Round negotiations and used as a bargaining counter in that respect.

• 1620

I might add that these Resolutions involved a few departures from the Tariff Board's recommendations. These departures are as follows. One relates to wire rod to which I have already referred. The Board recommended the elimination of the MFN rate of duty, now \$3 a ton, which is not very high on wire rod classified under Tariff item 37915-1. Imports under this item are mainly from EEC and Japan and, as I mentioned a few minutes ago, are pretty directly competitive with the output of Dosco and some of the far western producers. It was in recognition of the vulnerable position in this regard that a government decision was made not to take any action, at any rate at this time, on this particular recommendation of the Tariff Board.

The other departures from the Tariff Board's recommendations are in the reverse direction. The Board recommended the termination or striking out of three items which now provide for free entry under the British Preferential Tariffs of certain goods. This would have meant a simplification of the tariff, but it was a simplification which, both from the point of view of British export interests and interests of some particular Canadian importers, had disadvantages.

The items in question relate to barbed wire, roping wire, certain wire rope for use in commercial fishing operations and bailing wire. In each of these instances the decision was not to act upon the Tariff Board's recommendation which, as I said, would have resulted in the elimination of an item which

provided for free entry under the British Preferential Tariff.

In conclusion, I might add that retention of the free entry on wire rope for fishing, will meet very specific representations which were received from the Fisheries Council of Canada and the continued free duty entry of barbed wire and of bailing wire is, of course, of interest to Canadian agricultural interest.

The Chairman: Are there any questions on this section?

Mr. Lambert: Not much barbed wire is used now.

Dr. Annis: I think this is true, sir, but at the same time it seems to me that it would be predictable that at least some exception would be taken to an increase in the tariff on it.

The Chairman: Are there any further questions on the wire products or any of the other related items on the balance of page 69? If not, let us move on to page 70. There are some other products here which seem to be related to wire products. We will move, then, into a group of different types of equipment and machinery, some for domestic use—principally for domestic use—although I do not suppose a fire engine would be ordinarily for domestic use. In any event, are there any questions or comments with respect to any of the items on pages 70 and 71? Is there anything you wished in particular to bring to the attention of the Committee, Dr. Annis?

Dr. Annis: No, sir, I think not. These are items that really cannot be summarized. It seems to me that it is proper for the Members of the Committee to look at them individually. If there are any questions they wish to raise, we will attempt to deal with them.

• 1625

Mr. Irvine: Mr. Chairman, as I see it, glancing at it quickly, the only changes are in the Most Favoured Nation column.

Dr. Annis: That is true, sir. Of course, you must recognize that nearly all the imports come from Most Favoured Nation countries...

Mr. Irvine: Yes.

Dr. Annis: ...and consequently, those are the rates that really count in this sector.

Mr. Irvine: The amounts are really minimal, are they not?

Dr. Annis: The reductions are not very great. They are modest amounts.

The Chairman: Let us turn now to page 72 and the first three items are again in the miscellaneous category and then we seem to begin a category of machinery which covers the balance of pages 72, 73 and almost all of page 74.

First of all, are there any questions or comments on the miscellaneous items at the beginning of page 72?

Mr. Lambert: We discussed all of the items on page 72 on Item 42700.

The Chairman: That is right. My comments were only with reference to the first three items. I was going to suggest that, bearing in mind the rather complete discussion we had in the framework of Item 42700, we might now take a look at the balance of page 72, page 73 and page 74, with the exception of the last two items which deal with cutlery. All of them seem to fall into the general category of machinery. Am I not correct, in that Dr. Annis?

Dr. Annis: Yes, sir.

Mr. Lambert: With regard to Item 42729-1 ball and roller bearings n.o.p., this has been moved into the cut in one jump. Is there another item in which there is no change being made and is this particular item one that is relatively inconsequential?

Dr. Annis: There are other items which relate to ball and roller bearings. There is one provision for certain ball and roller bearings under the automobile schedule and there is a lengthy provision in respect to agricultural implements and that sort of thing that provide for free entry of any materials including ball and roller bearings for use in the production of agricultural implements. However, it does not follow that this is an inconsequential item. Actually, imports under this item, are quite substantial—about \$12 million in 1966. One reason for making the reduction in a single move is that this will bring the rate into line with that which applies to machinery, that is, machinery available from Canadian production, under the machinery plan. If the rate on ball and roller bearings were more than 15 per cent, it would mean that, in many instances, one would have a higher rate of duty on a component than on a finished machine which would be dutiable at not more than 15 per cent.

Mr. Lambert: In other words, it parallels Item 42700?

Dr. Annis: Yes sir.

The Chairman: Dr. Annis, if you will look at the following item, "machinery for dairying purposes", it appears that the rates in the Resolution are exactly the same as the present rates. What is the purpose of having an item of that type in the Resolutions?

• 1630

Dr. Annis: The explanation of that, sir, is that one should look at it in conjunction with the immediately following item. At present in the tariff the two lists, if that is the right word, of kinds of dairying machinery are combined in a single item at a rate of 15 per cent. Under the Kennedy agreement and these Resolutions the item is divided into two parts, one of which provides a reduction in one step from 15 per cent to 7½ per cent on the power fillers and cappers, the power milk bottle washers and so on. I might add that these are types of machinery which are not, at present, made in Canada and for which there is no immediate prospect, as far as we know, of Canadian production. While no change is proposed, in respect of the other part of the item, I might add that it is the small part of the item which relates to certain other types of equipment which are available from Canadian producers in what seems to be adequate volume to look after the needs of Canadian consumers. I might add that in these items—while the phrase used is for dairying purposes—you will note this is for dairies, and not for farm purposes. The kind of thing that is used on the farm is already free of duty and has been for some years, if it meets the test of being a farm implement or machinery as defined in that very broad group of items which are accorded free entry.

The Chairman: Do you have any further questions or comments at this time on pages 72, 73 and 74, with the exception of the concluding two items, Mr. Lambert?

Mr. Lambert: On 42732, I was just wondering, if the equipment or machinery for dairying purposes in its true sense could not have stood some reduction in price? I do not know. But as we know, one of the difficulties in the dairy industry today is the cost-price squeeze, and one of the biggest complaints from dairy farmers who are actually dispersing their herds and getting out of dairying is that they

cannot face up to the cost of installation of the machinery. This has escalated somewhat over the past few years, and milk marketing boards and milk distributors are asking for higher and higher mechanization to the point where, frankly, the little fellow is pushed out. We have not possibly seized upon the opportunity of giving these people a bit of a break by a price reduction in reducing the tariff on this type of machinery.

Dr. Annis: Well, it seems to me this is certainly a legitimate point, one that ought to be kept in mind for possible future negotiations. It is one that gets very much into policy, on which, of course, I would not wish to comment. The only point I would add is that the part of the item on which a reduction of 50 per cent is made in these Resolutions covers about two-thirds of the trade involved, and that part on which the rate is maintained, covers only about one-third of the trade. We must use approximations here because our statistics do not permit a complete and accurate breakdown, but the estimate I have is that in 1966 imports under that part of the item—what is now the second item—on which the reduction is made were \$720,000, while on the first of the two items, the part on which no reduction was made, the imports were about \$350,000.

Mr. Lambert: I fully recognize Dr. Annis this is a policy question, but I thought I would red flag it, at this point, because it seems to me that the milk producer on the farm is the one that is concerned with 42732; he is the one that is not being given any break under the maintenance of the rates.

Dr. Annis: Well, we at the official level will certainly take note of that.

The Chairman: Now, is there anything further with respect to the pages I have mentioned? Mr. Irvine.

Mr. Irvine: Mr. Chairman on page 74, just as a matter of clarification, 42907...

The Chairman: Actually, I have not come to that yet, I wanted to start that, assuming we had no further questions with respect to the three preceding items on page 74. If not, Mr. Irvine?

• 1635

Mr. Irvine: I just wanted to ask whether this item on razors, included electric razors?

Dr. Annis: That is correct, sir. There is a separate item; something about electric dry

shaving machines. I think that is the phrase used.

Mr. Irvine: All right. Now, one other question which I think is rather general. Why, behind each of these or as a suffix to each of these numbers is there a "1"?

Dr. Annis: This arises from the statistical needs, or I might say, really it is a recommendation of the Dominion Bureau of Statistics in connection with the changeover to a new tabulating system for recording imports. You said, in each case there is a "1"; actually it is not quite every case. If it were every case, there would be no need. In the tariffs there are some.

The Chairman: For others, sometimes 2's and 3's.

Dr. Annis: Yes. Incidentally, you have a very good point; it would have been desirable if we could have avoided the nuisance of referring to so many numbers each time.

Mr. More (Regina City): I just wondered if the "1" indicates Kennedy Round changes?

Dr. Annis: No, sir. Those are figures in the present office consolidation of the customs tariff. In some instances, there is also a second subdivision which provides part 2, which at some stage or other has been split off from the item that is now labelled as 1. In some cases there is more than 1 and 2; in some cases there are 3 or 4.

The Chairman: We should bear in mind that these Resolutions do not cover every item in the tariff. Am I correct?

Dr. Annis: Yes, sir.

Mr. More (Regina City): That is what I meant, and I thought perhaps the one just identified this series of negotiations.

The Chairman: Now, if we have no further questions with regard to cutlery of iron or steel, let us move on to page 75, which is a grouping of items. I suppose you could call them fasteners of various sorts—nuts and bolts and spikes. Are there any questions on these items? If not, let us also ask about the two remaining items. They are different types of tools, I guess you would call them, for chopping things or cutting things, and measuring rules and tapes. There are no further questions? Yes, Mr. Ballard?

Mr. Ballard: I wonder if Dr. Annis could refer back to 43025, wire nails. What hap-

pened to the wire nails over one inch in length; have you heard something about them?

Dr. Annis: Yes, they are not included in these Resolutions because there is no change proposed in the present rate of duties.

The Chairman: Now, page 76; this seems to be mainly utensils made of iron or steel; kitchen and other types of similar utensils or containers. Are there any questions or comments on the items on this page?

Now, let us look at page 77; with the exception of the concluding item it seems to deal with locomotives and railway cars and wheels. Mr. Lambert?

Mr. Lambert: Number 43420-1. These are for steel wheels for use on railway rolling stock, n.o.p. Presumably there is somewhere a more extensive item dealing specifically with the bulk of the category of railway wheels, or steel wheels. Whereas this category is maintained and, we have pretty well maintained the same tariff level for British preferential, the MFN have undergone some rather extensive cuts. I was wondering why. Is it felt that the British, or the Commonwealth countries enjoying B.P. have a sufficient competitive edge that it did not matter so much, or were they themselves not prepared to grant us compensative reductions?

• 1640

Dr. Annis: It seems to me there are really two points involved there. The first one is the rather extensive cut in the MFN rate which is to go down from 27½ per cent to 17½ per cent. My comment on that point, looking at the shape of the tariff as a whole as it is emerging, is that the 17½ per cent rate, which is proposed at the end of the period, is what one might regard as being a more natural, normal or proper sort of rate and that the 27½ is pretty badly out of line in terms of the Canadian tariff, even as it exists now. It is an exceptionally high rate and if it were not reduced drastically, it would be very much out of line with the general level of rates that are proposed on comparable goods.

Mr. Lambert: May I interpose? What is the end objective? Is it uniformity of tariffs, is it the protection of goods made, or the derivation of revenue? What is the prime consideration?

Dr. Annis: I would like to put it a little differently. The end result of this is to

achieve a tariff which, both with regard to the general level and to the structure or the relationship—inter-relationship—between various rates, is a better one—an improved one—and which, unless there are extremely good reasons to justify it, does not include very high rates of duty. The objective of the Kennedy Round exercise and an objective which was part of the policy directive laid down before the negotiations started, as far as the Canadian team was concerned, was to be prepared to reduce rates of duty, in particular those at a level, in the light of present circumstances, that were not justified. A 27½ per cent rate on steel wheels, it seemed to me, would be one that could properly be regarded as being out of line and with respect to which, one might very well start off with an assumption, that unless it is proved to the contrary the rate of duty on this sort of thing must have been. This, after all, is a component for a pretty important item of capital equipment. If one thinks in terms of a desirability of trying to bring down Canadian costs of production and distribution, surely, transportation is an important element of that.

Mr. More (Regina City): Will it create problems for Canadian industry in this line or will it make them more viable by having an export market they do not now have?

Dr. Annis: We, in the Department of Finance, have no reason to think that it will create any particular problem based on any evidence that we have. It seems to me that is reinforced by the fact that we have not received any complaints or representations from any producers in the now nearly seven months that this has been public information.

The Chairman: That is the answer.

Dr. Annis: Also, the imports under the item are not very large.

Mr. Irvine: Mr. Chairman, under Item 43410-1, there is quite a difference between the Most Favoured Nation's rate of 25 per cent and the proposed eventual 1972 rate of 17½ per cent, which would likely represent more than the net profit of the Canadian firms so engaged.

I would like to ask Dr. Annis what other provision—this is an n.o.p. item—made for the protection of these firms?

Dr. Annis: This is the locomotive item?

Mr. Irvine: Yes, Item 43410-1.

Dr. Annis: So far as I know, no other provision is made for the protection of these firms, and I have not seen any argument made that any ought to be. This is an area where we are, after all, pretty efficient. It is an area where the present rate of duty is pretty high and it seems to me that the same line of argument we have been developing in relation to the steel wheels should, to some extent, be applied here.

I might add, as you, of course, well know, that the day of the steam locomotives is gone and that what we really are talking about now are diesels. After all, this is General Motors and other firms of a sort. They are in a pretty good position to get along with modest levels of protection as opposed to high levels of protection.

Mr. More (Regina City): Is there any other concession that helps us in the export market?

Mr. Schwarzmans: The non-railway wheels; we were just looking at that. The present United States rate of 4 cents a pound, will be eliminated.

Mr. More (Regina City): What about the locomotives?

Mr. Schwarzmans: On locomotives, the United States rate will be going down by 50 per cent, from 11.5 to 5.5 per cent.

Mr. Irvine: That is the duty into the United States?

Mr. Schwarzmans: That is the United States tariff into the United States.

Mr. Irvine: I am concerned with this because in my area we have a large producer of locomotives: I believe there is one also in Kingston and one in Montreal. There may be others, but I know there are those three. Were any representations or objections made by any of these manufacturers or were representations made, period?

Dr. Annis: The reply to that question, I think, sir, is this. We did receive representations in advance of the negotiations. A brief, or briefs, very definitely were in the hands of the committee which met under Hector McKinnon's Chairmanship and of which a number of us here were members. There were representations in advance. There have not been to my knowledge, any representations received on this item since the results have been made known. I think I am perfect-

ly safe in saying that none have been made to the Department of Finance. I cannot recall any: Mr. Loomer cannot recall any and on this sort of subject, we see everything that comes in.

The Chairman: We did not get any here.

Dr. Annis: Mr. Chairman, might I add one further comment? It goes back to Mr. Irvine's earlier remarks in which he referred to the fact that the proposed reduction from 25 per cent to 17½ per cent in the tariff protection on locomotives—a reduction of 7½ points—is presumably greater than the present margin of profit which producers would be making. In that regard, it seems to me it is proper to point out that there is every reason to expect that the Canadian producers are not taking, by any means, full price advantage of their tariff protection, and that, consequently, a reduction in the tariff will not necessarily reduce their profits—not necessarily at all. There is every reason to expect that if it does reduce them at all, it will not be by anything like the amount of the reduction in tariff.

The only circumstances in which the profits of a producer would be badly hit would be if the producer is taking full price advantage and, consequently, is forced to reduce his prices by the full amount of the tariff reduction. I have no reason to think that that is the case here.

Mr. More (Regina City): There is no front end loading; the five year period is uniform in reducing this, I noticed.

Dr. Annis: Yes sir.

• 1650

Mr. More (Regina City): That there have been no representations would be a factor.

The Chairman: If you have no further questions in this grouping, it would appear that beginning with Item 43803-1 at the bottom of page 77, continuing to page 84 up to and including item 43910-1, we are dealing with automobiles and auto parts.

Mr. Monteith: Mr. Chairman, I asked a question last week and I think the information was supposed to be secured for me; I do not suppose it is available yet. I think the question concerned the division between automobiles and related products and other products both in exports and imports for the last three or four years.

Mr. Schwarzmann: Mr. Chairman, I had the figures yesterday. I am afraid I have not got them today, but I recall it was roughly something like this: two-thirds—this is in terms of the increase in manufactured goods, exports.

Mr. Monteith: What I actually wanted was total exports, the variance between other products and everything else and automobiles for the last three or four years, and also the imports as automobiles and all other things.

Mr. Schwarzmann: I have not got that information.

The Chairman: I have a note that you are to develop it and report to us later on. Now, since we are dealing with a fairly major category here, if you like I will give you the opportunity to make some preliminary comments. I believe I have included all the items relating to automotive products, have I not?

Dr. Annis: I believe you have, sir. Yes, I think I might comment briefly in general terms. What is proposed here relates fairly directly to the automotive products agreement, and maybe I should say a word or two about the connection.

The automotive products agreement with the United States and also, I might say, the other arrangements in the automotive field which were made somewhat earlier with Volvo and then with GIC in connection with the assembly in Canada of Renault and Peugeot, provide for the entry of automotive products into Canada on terms that are more favourable than those provided in the basic historic tariff items.

Mr. More (Regina City): Dr. Annis, I do not want to interrupt, but does this apply to Japanese products too? We have the set up of—I forget the name, but...

The Chairman: CMI. Have they qualified yet for...

Dr. Annis: Well, this organization came into being after the automotive products agreement was in force and consequently they were in a position to take advantage of it.

These other arrangements were initiated in advance of the automotive products agreement and some special arrangements were made which involved, in effect, reduction of duties on certain parts and components by Order in Council, special arrangements which were made in advance.

• 1655

The point I was about to make is that these special arrangements under the agreement are set out in separate tariff items which come at the end of the tariff. If you want to refer to them in the customs tariff you look up items 95001 and 95006, in each case followed by a 1.

Now, those items are not affected by the Kennedy Round reductions. The items that you have before you here which are affected by the Kennedy Round Tariff reductions are the original items in the tariff and they apply to the finished vehicles. You will notice the vehicle item is here and that a reduction from 17½ per cent to 15 per cent is provided for; this also applies to any automotive products which do not qualify for entry under the special tariff items set up following the Canada-United States agreement.

These will be mostly replacement parts but they would also apply to any other parts which, for whatever reason, did not qualify for admission under the automotive products agreement. As far as parts are concerned basically we are talking here about after-market parts.

The rates that are provided for by these reductions would apply, of course, more generally if the automotive products agreement should collapse or for whatever reason these free entry provisions were terminated.

On motor vehicles—passenger cars, trucks and so on—the MFN duty is reduced by these Resolutions from 17 per cent to 15 per cent. The duty on the various parts that are now dutiable at 17½ per cent or which, prior to January 1 were dutiable at 17½ per cent, will be scaled down progressively to 12½ per cent. For other parts which have in the past been dutiable at 25 per cent, the new rates will be 15 per cent or 20 per cent.

Now, I do not know whether Mr. Schwarzmann would like to say something about the other side of it or whether I should say just a brief word. Possibly I can do that and then he can develop it more fully if he wants to.

The United States reductions in this area, which would apply to any parts not covered by the agreement, are as follows: On passenger cars the United States rate is being reduced from 6½ per cent to 3 per cent; on special purpose vehicles other than fire engines the United States rate goes from 10 per cent to 5 per cent, and on motor vehicle parts—that would be after-market parts or other parts that do not qualify—the rate

would go down from 8 per cent to 4 per cent. I might add that we do have quite a volume of trade in that category; it was about \$32 million in 1966, so that there is every reason...

Mr. Monteith: Imports or exports?

Dr. Annis: These are exports. I think I should pause here and ask Mr. Schwarzmann whether he wants to stand on this.

Mr. Irvine: Do you know the value of imports in that category at the same time, say, from the United States?

Dr. Annis: On that we know what the total imports are, but have only an estimate and breakdown of what is under the automotive scheme and what is not.

The total trade figures, which include both products covered by the agreement and not covered are as follows and, in fact, I can give you both the import and the export side if you wish.

For the calendar year 1966 Canada's imports from the United States were \$1,502 million. The total from all countries, was \$1,361 million. On the export side...

• 1700

Mr. Monteith: Pardon me. Did I not understand you to say \$1,502 million?

Dr. Annis: I beg your pardon. I should put it in these terms, I think; \$1.5 billion.

Mr. Monteith: Yes. \$1.5 billion for imports from the United States.

Dr. Annis: For imports from the United States.

Mr. Monteith: And all other countries is the \$1.36.

Dr. Annis: No, from all countries including the United States, \$1.6 billion.

Mr. Monteith: Yes, all right.

Dr. Annis: On the export side, our exports to the USA were \$845 million and to all countries, just over \$1 billion. It was \$1.005 billion. You might say \$1.0 billion.

Mr. More (Regina City): Is that the first full year of experience under the automotive tax?

Dr. Annis: No, it is not the first full year; but, I suppose one could say it is the first year in which this really began fully to bite, particularly on the export side. These figures

are a startling increase from any previous year.

Mr. More (Regina City): You mean in regard to exports?

Dr. Annis: In regard to exports, yes.

Mr. More (Regina City): What about the increase in imports?

Dr. Annis: The increase in imports has also been great. In percentage terms, it, of course, has been very much less because we started off from a considerably bigger base, and in absolute terms, the increase in imports is definitely less than the increase in exports. So our deficit in this period has been reduced.

Mr. Monteith: You would not have those identical figures—the \$1.5, the \$1.6, the \$845 million and so on for the year 1964?

Dr. Annis: Well now, just a moment; I have a published document put out by the Motor Vehicle Manufacturers' Association.

The Chairman: I have that in my office.

Dr. Annis: I was going to say that I am not sure these figures are strictly comparable; no, they are not as to period. But, I think they give you the essence of what you want. If we look at the total of automotive imports; parts and vehicles—I have here two comparative 12-month totals; the 12-month total for the period ending July, 1966 and the period ending July, 1967—the imports for the 12-month period ending July, 1966 were \$1.38 billion and the corresponding figure for 1967 is \$2.1 billion. I am rounding to the nearest hundred million.

An hon. Member: Exports?

Dr. Annis: No, these are imports.

An hon. Member: Imports, yes.

• 1705

Dr. Annis: Here are the exports. As I say, what I am reading from is a publication put out by the Canadian Motor Vehicle Manufacturers' Association. For the 12-month period ending September, 1966, the total of automotive exports; parts and vehicles, are given in this publication as \$736 million, and for the 12-month period ending September, 1967, as \$1.6 billion. You will see this is a startling increase, more than doubling, and in absolute terms it is an increase of nearly \$900 million.

Mr. More (Regina City): You gave us figures on the basis of the calendar year 1966?

Dr. Annis: Yes, it was the calendar year 1966.

Mr. More (Regina City): Exports are shown here as \$845 million, and from all countries \$1 billion. \$1.6 billion seems to be a lot of difference regardless of how...

Dr. Annis: This is an area where changes have been taking place very rapidly. When one goes from figures that move up only six months, you get startling differences.

Mr. More (Regina City): Startling differences, yes.

Dr. Annis: Now, I am afraid I run the risk of being rather unscientific because I was giving you figures that were from two different sources.

Mr. More (Regina City): Yes, and for two different periods, too.

Dr. Annis: Two different periods too. But in any case the second set that I gave you relate to a very recent period. They have been compiled by the Motor Vehicle Manufacturer's Association and I think they reveal the basic facts of the story.

I might add that we have a third table here but, I would suggest—if you are satisfied sir—probably we had better leave it at that because these figures become pretty complicated.

Mr. Clermont: What is wrong with the third table?

Dr. Annis: I beg your pardon.

An hon. Member: Whose figures are they?

The Chairman: I think the Department of Industry has comprehensive figures covering equivalent time periods and computed on the same basis as for these time periods. I think Dr. Annis is trying to carry out a synthesis.

Dr. Annis: Well, this third table was prepared by the Dominion Bureau of Statistics. It relates to calendar years, so basically the sources would be those from which I was quoting when I referred to the first table. But this is a more elaborate presentation; to attempt to digest this would, I fear, be very difficult unless everyone had the complete table in front of them.

Mr. Monteith: Maybe we could have it distributed. Not right now but at another meeting.

Dr. Annis: Well we certainly have a single copy of this available now. We could readily have it reproduced and distributed at the next meeting.

Mr. More (Regina City): Does this table provide statistics on the same 12-month period, before and after, as it were?

Mr. Loomer: Yes sir, for three years; 1964, 1965 and 1966.

Mr. More (Regina City): Well I think this is in essence, the information we would like to have.

The Chairman: Yes.

Mr. Clermont: Any objection to these tables being printed in our daily report?

The Chairman: Well there could not be any objection because I have it, and I am giving it to our Clerk so she can have copies made right now. I will just mark for Miss Ballantine the portion we need under the heading Transportation Equipment. I gather this is information accumulated from the Department of Industry or, the Dominion Bureau of Statistics sources developed by the Department of Industry. Am I identifying that correctly?

When we have this before us, it will be a lot easier to follow this question because it can be very complicated and perhaps we might create the wrong impression if we are not dealing with the same time period in each year and not dealing with the same basis for statistics. It may be rather unfair to you Doctor, although you are doing a very good job of putting together these various sets of source materials. I think we should ease your load by getting a comprehensive table.

• 1710

Now, perhaps you can continue. You had just finished outlining for us the effect of the tariff changes for Canada. You have asked Mr. Schwarzmann and he has responded by telling us of the tariff concessions that we have won from the United States in this area of trade.

Is there any further general information explaining these items that you think we should have before I invite members of

the Committee to pose any questions they wish to ask?

Dr. Annis: I have nothing further to say.

Mr. Monteith: Does the automobile agreement supersede all this.

Dr. Annis: No, sir; that is not entirely true. The automobile agreement relates to the trade in vehicles and parts for original equipment. It does not relate to the so-called after-marked parts. This is quite an important trade.

The Chairman: Is there not also another factor, so that if the motor vehicles manufacturers do not meet the requirements of the pact, with respect to manufacture and Canadian-content, then their imports are subject to duty under these items; so that there are two factors to which this set of items could apply?

Dr. Annis: Yes; and I think one could add as a third point that if the automobile agreement should terminate, for whatever reason, these are the rates which should become the effective rates not only for after-market parts but for original equipment.

The Chairman: Of course, it should, perhaps, be noted here that, as I understand it, the agreement is one with an indefinite term, which can be terminated on one year's notice by either side. I do not think there is a fixed term. Although there is a provision for review after its first three years—which review is now under way—the actual termination does not come about through the arrival of a certain date but rather by either side's giving notice of one year or more.

Are there any questions or comments on this group of items? I think Dr. Annis and Mr. Schwarzmann have reviewed the impact of these quite comprehensively.

Mr. More (Regina City): Mr. Chairman, there is one item in which I am interested. I am not sure under what heading it appears. So that I will not overlook it perhaps you will permit me to ask Dr. Annis a question now.

The Chairman: Certainly.

Mr. More (Regina City): In the publicity given the heavy electrical industry in the story about them that was published last week they complained that they had expected the reductions to be phased equally over a period. In particular, they complained about front-end loading, in regard to their items.

The Chairman: Before I ask Dr. Annis to answer perhaps we could find out where it is in the tariff. There may be other questions on the same kind of item.

Mr. More (Regina City): The reason I ask for your permission, Mr. Chairman, is that I had a note and a clipping on it and I have misplaced both of them.

The Chairman: If you had the material before you you might be in a better position. Perhaps you could identify the item when it comes up.

Dr. Annis: I think that what would be primarily in mind in this suggestion would be a group of three items which appear on page 89.

Mr. More (Regina City): Mr. Chairman, instead of asking the question I will just mark the items so that I will know where to look.

The Chairman: Yes. I am sure we will reach them in a few minutes, although it is perhaps rash of me to suggest that. I know that at least one other member, Mr. Lind, has questions on this category.

Are there any further questions or comments on the automotive categories. If not, let us move on to the remaining items on page 84.

Mr. More (Regina City): Mr. Chairman, I have one further question. Are the rates applicable to the after-market the same for all countries? There is no difference in the after-market because of the automotive pact with the United States, is there?

Dr. Annis: That is correct, sir.

• 1715

The Chairman: Let us move to what some members may consider belong to quite another age. I see two items referring to farm wagons and freight wagons. I presume we will not have too many questions on these.

Mr. Monteith: I do not see any Red River carts mentioned there.

Mr. More (Regina City): These farm wagons could have rubber-tired wheels and ball-bearings.

The Chairman: That is right; but what of freight wagons, and children's carriages, sleds and other vehicles on the following page?

If there are no questions on these miscellaneous vehicles let us move on to the next group which seems to apply to vessels and boats. Do you have any questions or comments on this group?

Mr. Lambert: There is an explanatory note in 44004-1, to the effect that the Minister may, by regulation, exempt from further duty after initial duty has been paid under the three preceding items. What is the technical explanation of that, Mr. Chairman? What is the significance of this blanket authority?

The Chairman: Perhaps it would also be of interest to know whether this is really a new statement in the item.

Dr. Annis: Yes, sir; I think that is probably the basic point to be made.

This provision appears in the present tariff item. It relates to certain provisions under the Canada Shipping Act.

Before speaking to them—if I should speak to them—I think that I ought to refresh my memory. Probably I can say enough on this to enable us to go on.

There are certain provisions in the Canada Shipping Act which, under certain conditions, provide that if a ship is imported for one purpose—for the coasting trade, let us say—and diverted to another certain duty is applied, although I am not sure that “duty” is the correct word. This provision relates to that.

The point I wish to make is that this is a continuation of an existing provision, without change, so that the only significant point for our present purposes is the reduction in the rate of duty.

I might also add that that provision is not really relevant to these small pleasure boats that are covered by this item.

It was felt that it was necessary to include it there because it appeared in what might be called the parent item from which this was extracted and which does relate to seagoing vessels.

Mr. Lambert: Perhaps I was rather misled by its position and the continuation of the same type. As a matter of fact, it appears really to belong in 44004, when, in essence, this provision for exemption by regulation has more application to 44002 and 44003 than to 44004.

Dr. Annis: Yes, sir; that is correct. It seems to me that the point would be made some-

what clearer, without spending an undue amount of time on it, if I were to read the text of the item as it appears in the tariff. I am sorry; that is unnecessary. It is in the resolution immediately above.

The Chairman: Do you want any further information, Mr. Lambert? If you do, I will ask Dr. Annis to look into it and report back to us tomorrow morning.

Mr. Lambert: No; he has explained it. But for the life of me I cannot see how it would have any application to a small open boat less than 30 feet long.

Dr. Annis: I think you are perfectly right sir. In fact, going back a little, I believe my own view was that it was not necessary to include this item in the text. However, at an earlier stage there was a little doubt about this and we did put it in, you might say, so that our rear would be protected.

Mr. Lambert: It might be a deck boat. You know on the larger vessel where you would have an open boat possibly for safety or auxiliary reasons.

The Chairman: If we have no further questions on the grouping for vessels and boats and also some items for fisherman, then let us move on to the next page, which is 86, and there will be found a grouping with respect of aircraft and aircraft engines. Are there any questions on this?

Mr. Lambert: These are the two items, are they not, that are the perennial appearers in the annual budgets? Are they now going to be fixed? Is it a fact that we are not going to see those in future budgets?

Dr. Annis: I think you give us a little too much credit there, sir. I think it is predictable that they will not appear in an annual budget for next year, but that they would appear in the following one. It seems to me that in this case—even while you may get rather tired of their appearance—there is a sufficient reason for doing it this way.

The Chairman: Could I intrude here? Perhaps, both yourself and Mr. Lambert could provide some clarification for the rest of us regarding the significance of the appearance or non-appearance of these items in the budgets.

Dr. Annis: The significance, sir, is really this. With regard to aircraft and aircraft engines, in fact, almost all the imports into

Canada come in free of duty. They come in free of duty under a provision that is statutory, but with a time limitation. The second line that appears here sets out in the present rates a 15 per cent rate of duty and under the new post-Kennedy regime a rate of $7\frac{1}{2}$ per cent is a rate of duty which would come into effect if Parliament did not extend the temporary free entry provision.

Now, for reasons which have been regarded as adequate by a succession of governments of both political parties, it has been considered desirable to give the Canadian users the benefit of, in effect, free entry, free aircraft.

Mr. Lambert: On a class or kind basis?

Dr. Annis: Yes, on a class or kind basis. But, in fact, all four-engined commercial aircraft and most smaller aircraft are ruled to be in a class or kind not made in Canada and, consequently, qualify for the free entry. Since the volumes of trade involved are so large and since it is in our interest to do what we can to get other people's rates of duty down on this, and in recognition, also, of what I would regard to be a fact—I think most people would—that under present conditions no aircraft model can be produced economically if it is produced for only one country's market, even if it is a big country, let alone Canada.

The Chairman: Britain has found that out.

Dr. Annis: Yes. We cannot hope, really, to produce an aircraft or an aircraft component unless it is sold beyond Canada and maintain in the background a potential rate of duty which gives us some leverage in dealing with other countries. The United States, in this Kennedy Round Agreement, are also cutting their rates of duty on aircraft and aircraft parts by 50 per cent. I think it is generally regarded to be in the Canadian interest. Certainly the Air Industries Association of Canada, as well as the users, the Air Transport Association of Canada, are publicly on record, I think, as saying that they would welcome a situation in which there was a two-way free entry arrangement between the United States and Canada. The day may come when that is practicable and I would think that we will be in a better position to secure that desirable result if we have potentially in the background a rate of duty that could be applied if we do not get what are regarded as reasonable terms of access to other markets.

• 1725

Mr. More (Regina City): We have made a cut of 50 per cent, then, in our potential rate.

Dr. Annis: Yes, sir, and the United States has done the same.

Mr. More (Regina City): What is the United States' rate on the Caribou and some of our aircraft?

Mr. Schwarzmann: It will be going from 10 to 5 per cent.

Mr. More (Regina City): And aircraft parts?

Mr. Schwarzmann: From 8.5 to 4 per cent on aircraft parts and engines.

The Chairman: At the same time it would appear that Canada will retain, after January 1, 1972, a protection certainly no less than the United States will retain?

Dr. Annis: Yes, sir. Retained in the sense that it will be actually applied on aircraft and parts ruled to be of a type or size made in Canada and will be available—potentially, at least—with regard to that that it is ruled not made and remembering that in terms of our international position and negotiating position the important item—the important item in terms of trade volume—is that that is ruled to be not made.

The Chairman: I have just one question. The items begin with the heading: "Aircraft, not including engines, under such regulations as the Minister may prescribe." Exactly what area would these regulations cover, class or kind, valuation for duty, or what?

Dr. Annis: In this particular case, sir, I do not think there have been any regulations issued. It is conceivable that circumstances might arise in which there might be a need or an occasion for regulations and consequently the...

The Chairman: I understand that I would be incorrect in saying that these regulations might cover value for duty?

Dr. Annis: No, sir, that would not be the purpose of these regulations.

The Chairman: If there are no further questions with respect to the aircraft grouping, let us pass on to page 87. Mr. Lambert has a question on 44100-1, guns and so on.

Mr. Lambert: Will this cover CO₂ pistols?

Dr. Annis: We make a practice in the Department of Finance of never answering a question regarding classification without first consulting the administrative authorities in the Department of National Revenue and, I think, probably for the record, at least, I should continue that. I might say that I think so, but...

The Chairman: Subject to correction by the Department of National Revenue.

Dr. Annis: ...then that very definitely is not a ruling.

Mr. Lambert: The reason I am asking that is that, as you may be aware, there are amendments to the Criminal Code at the present time which extend the definition of fire-arms to include a CO₂ pistol. This caused some judges some difficulty in the past. These things, I think, should have a 200 per cent duty on them, because at 15 or 20 feet they are just as lethal as a conventional type of hand gun. You can walk down any street here to any hardware and buy them without any control whatsoever.

Dr. Annis: Yes, sir. In that connection there is another section of the Customs Tariff which is relevant, and that is our prohibited list. In that there appears an item dealing with fire-arms. Perhaps I should read it. In schedule C, prohibited goods, there occurs an item that starts off,

Offensive weapons, as defined in the Criminal Code.

and then it goes on to state certain exceptions, but it seems to me that it is not necessary to read that.

• 1730

The Chairman: Are there any further questions on the items on the balance of page 87? It seems to refer to timing apparatus, gas and oil, lighting fixtures and appliances. Are there questions on these items? Let us pass on to the next page. We seem to be dealing with a grouping involving electric light fixtures, and telephone and telegraph apparatus. Are there any questions on these items?

Mr. Lambert: With regard to Tariff Item No. 44534-1, there is a rate of duty on radio or television receiving sets.

The Chairman: Number 44534-1? You are a page ahead of us.

Mr. Lambert: Oh, I beg your pardon. I thought we had got that far.

The Chairman: The wish is father to the thought. There are no questions with respect to page 88? I think we seem to be coming to another grouping. I will ask Dr. Annis to correct me if I am interpreting this incorrectly, but it seems we have a group involving all sorts of electrical apparatus on pages 89, 90 and parts of 91. Is that correct?

Dr. Annis: Yes, sir, and it seems to me that it is here that a question which was asked a few minutes ago becomes relevant, relating to what was described as heavy electrical apparatus. I am not sure of the full background of this question but I presume that it is probably related to the three items beginning

44514-1 Electric dynamos or generators and transformers,

and then goes on to electric motors and electric insulators. The two really important items are those covering dynamos, generators, transformers and motors and in respect of each of those items, the present MFN rate of duty is 22½ per cent and in each case, while there is staging, the first step is a relatively big one. Now, I suspect that this is what your questioner had in mind when he spoke of front-end loading...

Mr. More (Regina City): I found it on the front of *The Toronto Globe and Mail* of January 17, 1968.

Heavy-electrical firms feeling effects of cuts in tariffs, devaluation
It is a statement by Mr. Newell.

We had expected a linear decrease over the five years. The front-end loading had not been anticipated. It is the subject of a lot of head scratching at board meetings on the future of the heavy-electrical industry.

That is what raises the question, Dr. Annis. He says it is a serious situation.

Dr. Annis: Yes. The first point, I suppose, involves the statement that the front-end loading had not been expected. Now, presumably, whoever was speaking to the *Globe and Mail* did not expect it and this is an accurate statement.

• 1735

Mr. More (Regina City): Mr. Newell is the Vice-President of Canadian Westinghouse Company Limited.

Dr. Annis: Yes. Mr. Newell presumably, then, undoubtedly did not expect this. The only comment that I would make on that

would be that there is no basis that I know of in any official announcement which could be constituted or regarded as a promise or basis for such expectation, except in what he may have read into generalizations. I think nothing more need be said on that. At any rate what was done apparently surprised him and distressed him so that I think we can go to the substance of the case rather than attempt to debate whether, on the basis of the announcements that were made on June 30, he has a grievance or not.

Mr. More (Regina City): Could I ask whether by reason of the front-end loading in our reduction, we gained some considerable adjustment as far as exports are concerned for this industry or not?

Dr. Annis: In the case of these particular items, there was nothing in the agreement which required us to do this. This was a policy decision.

Mr. Lambert: May I ask why it would take almost 50 per cent of the reduction in the first year? I think this is the complaint—that perhaps it is just like asking a man who is going to go into a cold pool to jump into about his waist-line in the first instance and then gradually move in for the balance. I would have thought it was better to dunk your foot in first.

Dr. Annis: On that, I think that there are two considerations which are relevant and which are worth mentioning. One of them is rather general and one is specific to the situation. These electric dynamos, generators, transformers and, in a somewhat difference sense, electric motors are very closely related to the machinery plan—electric motors, in the sense that an electric motor is very often an important component of a machine. Often an electric motor will be imported as part of a machine which, under the new machinery plan, will be entitled to an MFN rate of 15 per cent as an entity.

If one followed the logic of what I have just said to the limit you might say: electric motors should have gone to 15 per cent in one step rather than being staged as if they had started off from 20 per cent, which is really what is done here. They are being staged as if we had started from 20 per cent to go down to 15. That logic was not pursued to its ultimate conclusion. In effect, what is done here represents a compromise, of which the purpose is to avoid getting the rate on electric motors too far out of line with machinery,

which they might or might not be, and having regard to what it was known would be the interest and preference of concerns such as Westinghouse or Canadian General Electric to have the reduction in duty, to which we are committed, take place as slowly as possible. That relates, specifically, to the item.

Dynamos, generators and transformers, especially dynamos and generators, would never be part of an imported machine. Under some circumstances a transformer might be, but it would be an exceptional case. There the argument in relation to the machinery plan must be simply one of analogy. This is a kind of equipment that is rather like a good deal of machinery—that is, under the machinery plan—in the sense that it is heavy equipment which represents a cost of production in one sense, production of electric power in Canada. The argument for reducing the rate faster than we are required to do under the commitment is really one of doing something to try to reduce or hold down costs of production in Canada. The case for moving rapidly here is one of looking at somebody else's production costs. From the point of view of the Canadian producer, I have no doubt that Mr. Newell of Westinghouse and I have no doubt that Mr. Smith of CGE feel the same way. They would have preferred that this be done more slowly. In fact, I think Mr. Smith said so in a public speech.

• 1740

Mr. Lambert: You can understand why they have done so because, in effect, almost 50 per cent of the total reduction comes on in the first year— $3\frac{1}{2}$ of the $7\frac{1}{2}$ per cent.

Dr. Annis: Yes, sir, that is correct. It is important from their point of view and it is also important from the point of view of users of this equipment. These are quite substantial items.

Mr. Lambert: Only to the extent that the user is able to have access to competitive electrical equipment. If this rate will still generally keep out most imports, then it means nothing.

Dr. Annis: It may or it may not. As a Canadian citizen, in a sense I would hope that the result would be to continue largely to keep out imports of the kind of thing that is now kept out. In other words, I hope that the effect would be that the Canadian producers would continue to supply the market for that sort of thing which they can produce, and

that the results of this reduction be that they sharpen their pencils a little more than they have been doing when it comes to quoting prices.

Mr. Lambert: Mr. Loomer will remember the days when we were taking economics together. I think this is assuming that there was a perfect market; that perfect market conditions applied.

The Chairman: I think Mr. More has finished his questions and I will recognize Mr. Lind, and after this startling admission...

Mr. More (Regina City): Dr. Annis, in this segment of the industry is it the consensus that they were taking total advantage of the former tariff?

Dr. Annis: I do not think so, sir. I am not in a position to say what a consensus would be. My own impression is that generally speaking they were not; I am not...

Mr. More (Regina City): I did not ask this question to embarrass you, but you volunteered the information on locomotives so I thought it was a legitimate question here.

Dr. Annis: Yes, well, I would not deny it and I confess that I am in a position here of talking about things which are partly factual and partly policy. We are to some extent expressing opinions on borderline questions.

I might add only one further comment that Mr. Loomer just made and that is a reminder that a considerable part of the imports of this sort of thing represent production that is really complementary to what is made in Canada.

There are some areas here where our people are very, very good. They quote prices just as good as they will be quoted in the United States and, in fact, where we are doing a very substantial export business now.

Mr. More (Regina City): They face many non-tariff barriers, do they not?

Dr. Annis: Yes, to some extent. In certain areas they very definitely do. But at the same time it is true that both Westinghouse and CGE have obtained very important contracts in the midwestern United States in the last year or two and they ought to be able to do still better in the light of the tariff reductions which the U.S. are making.

Mr. More (Regina City): That is the next question I was going to put: in light of com-

pensating reductions in the U.S. should they not have a larger opportunity?

Dr. Annis: Yes, sir. This is an area where definitely there is a two-way trade. There is more that comes North than goes South but it is definitely two-way.

Mr. Lind: Dr. Annis, referring to the article in *The Globe and Mail* again in which there was a statement by a Mr. Squires of Ferranti-Packard Electric Ltd., reading in part as follows:

Mr. Squires estimated that about a third of the \$60-million-a-year transformer business in Canada went to overseas companies in 1967.

'This is a serious situation and there is no doubt we have seen indications that devaluation has had an impact,' Mr. Rankine said.

'There is a strong suspicion in the industry that equipment is being sold here at dumping prices, and there needs to be effective anti-dumping legislation.'

I think we discussed this briefly the other day. I do not have a copy of Mr. Smith's speech. Are these firms on a fast write-off basis—depreciation basis—for their equipment? How much are they putting into their costs? Have they a fast write-off privilege? You know, if certain firms came and set up in the last few years they had an accelerated depreciation allowance. What I am after is this: Do they have their true cost or do they have a fast cost incorporated in the cost of their product?

• 1745

Dr. Annis: I do not have complete information on that. By and large, certainly so far as the main facilities of both Westinghouse and CGE are concerned, they are located in Hamilton and Peterborough respectively and some in New Toronto for CGE. Those are not designated areas and would not be subject to any accelerated write-offs. Now, there are some particular plants...

Mr. Lind: The one in Guelph would be, would it not? Is that not a depressed area? Is the Brantford-Guelph area a depressed area?

Dr. Annis: Certainly part of that region is.

The Chairman: There is another factor, too. Was there not accelerated depreciation for firms with a degree of Canadian ownership no matter where they were located? I do not

know if these electrical firms would qualify for that.

Dr. Annis: Here we are straying rather a good bit beyond our terms of reference. On the particular point of Guelph, Mr. Drahotsky of the Department of Industry, who is very familiar with what are designated areas and what are not, says that Guelph is not a designated area. None of us here has full information in front of him.

Mr. Lind: What I am interested in is how they arrive at their actual costs.

The Chairman: Mr. Lind, I think your point is of public interest from the point of view of assessing the impact of these tariff cuts at the present time, but perhaps it might be easier for us if the electrical equipment manufacturers or General Electric come before us as they indicate they may.

Mr. Lambert: The CMA brief is going to be their brief.

Mr. Lind: Has Canadian General Electric prepared a brief or is anybody from Canadian General Electric going to appear before this committee?

The Chairman: To refresh your memory with respect to Mr. Irvine's report yesterday, Canadian General Electric is not going to appear but they will associate themselves with the brief of the CEMA group.

Mr. More (Regina City): The Canadian Manufacturers' Association.

The Chairman: I am sorry. I meant the Canadian Manufacturers' Association. When we review their brief we will be able to see whether or not this point has been stressed. The reference here is at page 378 and Mr. Irvine said that as of yesterday he had not heard from CEMA—I guess that is the Canadian Electrical Manufacturers' Association—but I have been informed, and I am summarizing this, that Canadian General Electric would be associating themselves with the Canadian Manufacturers' Association brief and I think this has just been distributed to the Members for our review, not only for our study but also so that we may decide whether we want to ask a delegation from the Canadian Manufacturers' Association to present the brief personally to us.

• 1750

Mr. Lind: Is it a fair question then, Mr. Chairman, to ask Dr. Annis who is importing

this third of the \$60 million transformer business into Canada that we are losing here to our Canadian manufacturers?

Dr. Annis: I am not in a position to give any specific answer to that. Certainly electrical transmission authorities of one sort or another, whether provincial or privately owned, would be the main users of this equipment and presumably be importers of it, but I am not in a position to go beyond that.

Mr. Lind: You do not know whether it is coming in at a very substantial reduction on what our Canadian companies are producing it at or not. It is mostly used by public utilities, is it not?

Dr. Annis: Yes, sir.

The Chairman: Mr. Lambert?

Mr. Lind: Wait a minute. I do not want any interruptions here, if I may, Mr. Chairman.

The Chairman: All right.

Mr. Lind: Is the offshore company that is bringing this in connected with any one of the three manufacturers of electrical equipment in Canada?

The Chairman: I am not sure that Dr. Annis would have enough information available at the moment to deal with this.

Dr. Annis: No.

The Chairman: I think these questions are quite relevant to assess the impact of these changes on Canada, but I do not know if it would be fair to expect Dr. Annis to have this detailed information.

Dr. Annis: Yes, this is quite correct, Mr. Chairman, I simply do not have it. There are some parts of the story which I think are matters of public record. One of them is that in big contracts such as some of those that Hydro-Quebec are undertaking, there will be calls for tenders for the whole or some part of an installation, and who gets the contracts will normally depend on who presents the most attractive tender. On some occasions this may be a group that involves a number of companies, some Canadian and some foreign. On other occasions it may be a single foreign or single Canadian company.

Mr. Lind: My understanding is that one of these three, mentioned in this article, is connected with an offshore importing company that imports most of this equipment into

Canada in competition with the other three manufacturers.

Dr. Annis: I am not in a position to comment on this.

Mr. Lind: You are not in a position to comment on this.

Dr. Annis: No.

The Chairman: Do you have any further questions Mr. Lind?

Mr. Lind: I would like to have called before the Committee Mr. Smith, who made public this article. I would like to question him on it.

Mr. Monteith: I would like to be here when you do.

The Chairman: Since we are actually proceeding unofficially at the moment, I do not think we are in a position to decide whether we want to invite this gentleman to appear before us. Perhaps we might want to raise this suggestion. I think we might want to reserve this until our meeting tomorrow.

Dr. Annis: Yes. May I make just one comment in this connection and this is a negative one. That is this: the Dominion Bureau of Statistics, of course, collects information about imports but any information that comes from an invoice as to the name of the importer or the name of the exporter is, of course, confidential and it is not open to us to ask them for information of this sort.

• 1755

Mr. Lind: I would not ask this, other than the other day. Apparently it was introduced

as evidence by Mr. Irvine. He had copies of Mr. Smith's speech and I did not, and I thought, if it were introduced, it would be wise if he appeared before the Committee.

The Chairman: I think you ought to reserve that suggestion until our meeting tomorrow morning when we can deal with this. As I say, we are not proceeding officially at the moment and it is just about 6 o'clock so perhaps we could adjourn until 11 o'clock tomorrow morning.

Mr. Monteith: Mr. Chairman, unfortunately I will not be here tomorrow morning at all but I am very interested in furniture items 51901-1 and 51902-1. Certainly I am not suggesting that the proceedings of the Committee be held up at all but I am wondering if you could defer them to the last items in going through this Resolution, on the basis that maybe you will not finish tomorrow and that I would have a chance at them Tuesday morning. As I say, I do not want to suggest holding up the proceedings at all, but I would like to have an opportunity to get some information concerning furniture.

The Chairman: I think that subject to the wishes of the Committee as a whole, there is no reason why we could not take a few minutes when we begin our session Tuesday morning, before hearing the witnesses who are scheduled to appear, to have Dr. Annis give us some information on the furniture items you have referred to.

Mr. Monteith: Thank you.

The Chairman: I declare the meeting adjourned.

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1968

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS
Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 18

THURSDAY, JANUARY 25, 1968

RESPECTING
Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

From the Department of Finance: Dr. C. A. Annis, Director of Tariffs;
From the Department of Trade and Commerce: Mr. T. M. Burns,
Director, Section II, Office of Trade Relations; *From the Department of Industry:* Mr. L. F. Drahotsky, Chief, Commercial Policy Division.
From the Consumers' Association of Canada: Dr. H. E. English, Executive Vice-President; Miss F. Janzen, Executive Secretary.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,
Beaulieu,
Cameron (*Nanaimo-
Cowichan-The Islands*),
Cantin,
Comtois,
Flemming,
Gilbert,

Hees,
Irvine,
Laflamme,
Lambert,
Latulippe,
Lind,
Macdonald (*Rosedale*),
Mackasey,

McLean (*Charlotte*),
Monteith,
More (*Regina City*),
Noël,
Thompson,
Wahn.

Dorothy F. Ballantine,
Clerk of the Committee.

Acting Assistant Clerks:

Fernand Despatie (*Printing*),
Michael A. Measures (*Documents*).

MINUTES OF PROCEEDINGS

THURSDAY, January 25, 1968.

(23)

The Standing Committee on Finance, Trade and Economic Affairs met at 11:10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Clermont, Gilbert, Gray, Hees, Irvine, Lambert, Lind, Macdonald (*Rosedale*), Noël, Thompson, Wahn—(11).

In attendance: *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs; Mr. J. Loomer, Tariff Division; *From the Department of Trade and Commerce:* Messrs. T. M. Burns, Director, Section II, Office of Trade Relations; J. L. MacNeil, Office of Trade Relations; *From the Department of Industry:* Mr. L. F. Drahotsky, Chief, Commercial Policy Division.

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff resolution.

Messrs. Annis, Burns, and Drahotsky were questioned on tariff reductions in the fields of heavy electrical equipment, auto parts, radio and television apparatus, wood and forest products, textiles and fabrics, coal and gas, footwear, and miscellaneous categories.

The questioning on the resolutions having been completed, the Chairman thanked the witnesses who were permitted to retire, subject to recall.

The Committee agreed to include as appendices the following documents tabled by the witnesses:

Appendix I: Reply to inquiry of Mr. Gilbert;

Appendix J: Table of exports and imports of transportation equipment for the years 1964 to 1966.

At 1:10 p.m. the Committee adjourned to 3:45 p.m. this day.

AFTERNOON SITTING

(24)

The Committee resumed at 3:55 p.m., the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gilbert, Gray, Hees, Irvine, Lambert, Lind, Macdonald (*Rosedale*), More (*Regina City*), Noël—(12).

In attendance: *From the Consumers' Association of Canada:* Dr. H. E. English, Executive Vice-President and Miss F. Janzen, Executive Secretary. *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs; Mr. J. Loomer, Tariff Division.

The Chairman introduced Dr. English and Miss Janzen and, at the request of the Chairman, Dr. English summarized the brief of the Consumers' Association.

In accordance with the resolution passed at the meeting of December 19, 1967, the brief is attached hereto as *Appendix K*.

On the Chairman's invitation, Dr. Annis commented briefly.

Dr. English was questioned and at the conclusion of the questioning the Chairman thanked the witnesses, who then withdrew.

The Chairman noted that the brief of the Canadian Manufacturers Association had now been distributed and asked if it were the Committee's wish to call CMA representatives to appear. After discussion, it was agreed to invite the CMA to appear on Tuesday, February 5, 1968.

At 5:35 p.m. the Committee adjourned to 11:00 a.m., Tuesday, January 30, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

• 1110

The Chairman: Gentlemen, I think we are in a position to begin our meeting, unofficially, at least, at this stage.

I believe that when we adjourned yesterday evening, if I am not mistaken, Mr. Lind was asking some questions about heavy electrical equipment and we were, in fact, on the relevant portion of the Resolution.

Mr. Lind: I think we were at 44581.

The Chairman: That is right. Actually we were dealing with a group of pages which went on approximately to the top of page 90. Mr. Lind, would you like to continue the questions, if you still have some?

Mr. Lind: The other day portions of a speech by Mr. Smith were brought into the evidence. I did discuss this afterwards with Dr. Annis and I wonder if Dr. Annis brought a copy of this speech with him today. If so, could he read the portions pertinent to the electrical equipment? He said there were portions that were pertinent.

Dr. Annis: Yes, Mr. Chairman, I would be very glad to do that. The reference the other day was to certain excerpts from the speech and I think the reference to those may have given an impression that the speech, as a whole, was critical of the Kennedy Round concessions.

This would be only partly true. There were some references in it which could be interpreted as being critical, in the sense that Mr. Smith referred to "problems" and more frequently he used the word "challenges" arising out of the Kennedy Round.

Taking the speech as a whole, it seems to me the balance is rather different from that and it happens that Mr. Smith summarized his conclusions rather briefly at the end of the speech. It occurred to me that in order to give the proper balance, as I am sure Mr. Smith himself would wish to be the case, it

might be worthwhile reading that into the record.

I have here a copy of a speech given by Mr. J. Herbert Smith, President of the Canadian General Electric Company to The Electric Club of Toronto on November 15, 1967. The title of the speech is "Secondary Manufacturing and the Kennedy Round". The final two paragraphs of that speech read as follows:

In summary, this then is the answer to the question we have posed: "What is the Canadian electrical industry going to do about the challenges of the Kennedy Round?" First, we must improve the productivity of our multi-product, multi-model, multi-rating manufacturing type plans. Second, we must exploit any areas of "across the border" opportunities for sound product manufacturing integration. Third, we must seek out new opportunities for export business and be prepared to assume the risks and the costs associated with the uncertainties inherent in world operations. And fourth, we need provincial Power Commission support, at least for the adjusting years immediately ahead, in connection with heavy power generation and transmission equipment.

In closing, I think it is worthwhile to emphasize that three of the four actions that must be undertaken by our industry to meet the challenge of the Kennedy Round are dependent solely on our own energy, drive and initiative. I am convinced we can meet the challenge.

That is the conclusion of the speech.

• 1115

Mr. Lind: Would you repeat number four as I did not quite catch it.

Dr. Annis: Number four was:

And fourth, we need provincial Power Commission support, at least for the adjusting years immediately ahead, in connection with heavy power generation and transmission equipment.

Mr. Lind: Thank you, Mr. Chairman and Dr. Annis for reading those excerpts. I wonder if it would be of value to all the members if the whole speech were incorporated in our records, as an appendix?

The Chairman: There are two aspects to this. First of all, since it was not presented to us by Mr. Smith, I think the rule is that we would have to get permission from him for that purpose.

Mr. Lind: Yes.

Mr. Lambert: Mr. Chairman.

The Chairman: Do you disagree, Mr. Lambert?

Mr. Lambert: I certainly do, I really do.

Mr. Irvine: Let us have a talk with him about this.

Mr. Lambert: In my book, this is a public document and if a member of the Committee wishes to file it, it is up to the Committee to determine whether it shall be incorporated as an appendix or as anything else.

The Chairman: It is true that this was reproduced at some length.

Mr. Lambert: It was published.

The Chairman: That is right, and reproduced at some length in the press. If Mr. Smith, as Mr. Lambert suggests, made it a public document perhaps we...

Mr. Irvine: I have a copy of it, Mr. Chairman. The Vice-President informed me that they have quite a number of copies and if the Committee wished to have copies they would be very pleased to supply them.

The Chairman: That is one aspect, but the aspect we are dealing with now is whether the Committee wishes to have the entire speech printed in our records and, if so, whether, technically, we need Mr. Smith's permission.

I think Mr. Lambert's point is well taken. The circumstances of the production of the speech are such that it is, I think, a public document.

Mr. Macdonald (Rosedale): The question is, is it all relevant and helpful?

The Chairman: I think the most appropriate procedure would be this. Let us ask Mr. Irvine to obtain sufficient copies for the Com-

mittee; we will read the whole speech and then, as soon as we have an opportunity to do so, we will decide whether or not the speech, as a whole, is relevant to our matter of consideration. Not all of us have had the same opportunity as say, Mr. Lind and Mr. Irvine, to review the whole speech and perhaps we should have that opportunity before deciding whether to incorporate it in toto in our records.

Mr. Irvine, would you be kind enough to follow up on the offer of the Vice-President to give us copies?

Mr. Irvine: I would be very pleased to look after this, Mr. Chairman.

Mr. Lind: One further question. After reading this speech, would there be any chance of having Mr. Smith appear before this Committee if we thought it would be useful?

The Chairman: The Committee, itself, adopted a rule that all those who wished to appear would have to deposit their briefs by January 12, 1968. Mr. Smith did not do so and there are two steps, therefore, to be followed. First, to find out whether he wants to appear or in the alternative, we want him to appear and, if so, whether we should relax the rule of procedure we adopted earlier.

Mr. Lind: Fair enough, Mr. Chairman. I think we could ask for that later if we wished.

The Chairman: Do we have further questions or comments at this time on the section we have been dealing with which refers to heavy electrical equipment?

If not, I suggest that we move on to the next page, page 90. In the meantime, I understand Mr. Burns has some answers to questions asked by Mr. Macdonald. I wonder if, to save time, they could not be given to Mr. Macdonald in written form and we would incorporate them into the record. They were not with reference to this section on electrical equipment. Would that be satisfactory to you, Mr. Macdonald?

Mr. Macdonald (Rosedale): That suits me fine.

The Chairman: We are now in a position to proceed officially with two matters of routine. First of all, a table was distributed yesterday dealing with exports and imports of automobiles and automobile parts. I understood it

was the wish of the Committee to incorporate it in our record. Are we agreed on that?

Mr. Clermont: I agree.

The Chairman: Secondly, there is a written answer from Mr. Wright, Industrial Policy Advisor to a question asked by Mr. Gilbert pursuant to our policy. We adopted this and it will be incorporated in our record as well.

Now let us pass on, as I said, to page 90. The first two items deal with radio and television apparatus, and the following item deals with phonographs. Do you have any questions?

• 1120

Mr. Lambert: Yes, Mr. Chairman.

The Chairman: Mr. Lambert?

Mr. Lambert: Somewhere along the line, Mr. Chairman, I have received the impression that the importation of new radio and television apparatus into Canada is prohibited.

Dr. Annis: No, sir, that is not correct. I wonder whether the question arises out of something in connection with patent controls? There are, of course, particularly with respect to colour television and colour vision tubes, certain patents which have not yet expired and where the holder of the patent would have the right to determine what can be made available for importation into Canada and what can not.

So far as black and white television and radio apparatus generally are concerned I think a large number of the basic patents have now expired and are available to anyone. That is not true in respect of colour television, so there may be elements here where patent ownership is relevant; but I confess that I am not equipped to go into the subject more deeply. I do not know whether or not any of our colleagues here are.

Mr. Lambert: Mr. Chairman, I will let someone question and I will go and place a phone call, because it seems to me that two years ago I bumped into this directly.

Dr. Annis: Yes, I think probably that is the best thing; it may be there is something related to the tourist exemption that is relevant.

The Chairman: Mr. Clermont?

[Translation]

Mr. Clermont: Mr. Chairman, in table, number 3 I believe, concerning transportation

equipment in the automobile section, we had a total of \$997,219,000 for 1966. Could we have the amount of exports for the same year as regards automobile parts?

The Chairman: You are speaking of automobile parts?

Mr. Clermont: Yes, I think \$997 millions relate only to automobiles and trucks, and not to automobile parts.

[English]

The Chairman: Let us ask Mr. Drahotsky to come and consult, because I believe the compilation is a responsibility of his Department and perhaps it would be easier to have him comment directly. I believe Mr. Clermont expressed some concern whether automobile parts are covered completely in this table. What is your response to that?

[Translation]

Mr. L. F. Drahotsky (Chief, Commercial Policy Division, Department of Industry): Mr. Chairman, parts are indicated on the last line where you may notice the number \$256 million.

An hon. Member: 256,000.

Mr. Clermont: 256,000 millions? And in 1964 you had \$539,777,000 worth of parts?

Mr. Drahotsky: The description reads: "Other Motor Vehicle Supplies".

The Chairman: Are these explanations satisfactory, Mr. Clermont?

Mr. Clermont: In concluding, then, the worth of our exports in 1964 amounted to \$67,210,000 in automobile parts?

Mr. Drahotsky: That is correct.

Mr. Clermont: Compared to \$256,481,000 in 1966?

Mr. Drahotsky: Yes.

Mr. Clermont: Thank you.

[English]

The Chairman: Have you any further explanations to ask for? If not, we shall return to the resolution. Subject to returning to Mr. Lambert's question, are there any further questions or comments with respect to radio and television apparatus? I think I was about to ask Mr. Burns something about the export situation. I seem to recall at least one Canadian firm having penetrated the Ameri-

can market with some success, at least that is what was said by some articles I saw in the financial papers. Did we win any concessions in this area?

• 1125

Mr. T. M. Burns (Director, Section II, Office of Trade Relations, Department of Trade and Commerce): Mr. Chairman, in the United States market which is by far the most important market for Canadian producers of this kind of equipment, there were 50 per cent reductions made across the board which will result in final rates of the order of 5 per cent to 7½ per cent in this area taken as a whole. Their system is classified in more detail than the Canadian system, but over all I do not think there will be any item higher than 7½ per cent when the Kennedy Round reductions are fully in place. Thank you, Mr. Chairman.

The Chairman: Thank you. Are there any further questions on this section? If not, let us look at the remainder of page 90. There are some other types of electrical apparatus as well as some manufactures of iron or steel. If you have no questions or comments, let us pass to page 91. These items show a great variety ranging from steel bicycle rims to gas apparatus and on to ice skates, buckles, clasps and eyelets.

If you have no questions or comments on page 91, let us pass to page 92. Page 92 seems to deal with needles and fasteners of various sorts. Looking at 45120-1, I think we must recall the comments of Mr. Lambert yesterday about whether or not the wording of the item is in tune with the times, dealing as it does with corset clasps, busks, blanks, steels, and covered corset wires. What is the volume of importation?

Dr. Annis: The volume of importation in 1966 was \$11,000.

The Chairman: Do we have a substantial export trade in this item, Mr. Burns?

Mr. Burns: Mr. Chairman, I am not aware of any substantial export.

The Chairman: I suppose the new styles that we read about certainly are not helping this portion of Canadian industry.

Mr. Macdonald (Rosedale): Is it expected that the change will give an uplift to...

The Chairman: You can submit your answer in written form.

Dr. Annis: Thank you, Mr. Chairman.

The Chairman: In any event, are there any further questions or comments on page 92? Mr. Lambert, we will return to your item.

Mr. Lambert: Yes, I have cleared up the problem. There is no prohibition against bringing radio or television receiving sets or parts into Canada with the exception that such parts or apparatus cannot form part of the personal exemption for Canadians who have travelled abroad and have qualified for the \$100 exemption.

The Chairman: Thank you, Mr. Lambert. Now, let us move to page 93 which also is a combination of items covering a great variety of products. If there are no questions or comments on these items, let us move along to page 94.

Let us look at the first two items. If there are no questions or comments on these let us take as a group the remainder of page 94 and pages 95, 96, 97, 98, and 99 which seem to form a grouping of lumber products. Dr. Annis?

• 1130

Dr. Annis: It would seem, Mr. Chairman, that this very important group of products would merit a general comment by me.

The tariff provisions relating to lumber and to forest products more generally have been revised very extensively. During the trade negotiations in Geneva, the United States agreed in the lumber sector to go beyond its usual 50 per cent cut and to remove entirely the rather low rates of duty, in each case averaging not more than 5 per cent, which now apply to over \$300 million of Canadian exports annually in this field.

In view of this very important move the United States, not unreasonably, asked that Canada for its part, go very far in removing duties on the relatively small imports of comparable products. Our imports of comparable United States lumber entering Canada were about \$3 million a year at rates of 5 or 10 per cent. They asked us to match their free entry provisions and we were certainly very glad to do so in these circumstances.

They also asked us to match their rates, where they were lower than ours, on a number of other two-way trade items in the wood products group. Examples are items 50065-1, which you will find in the resolutions and which covers wood floor tiles, and item 50068-

1, relating to wood flooring other than of oak. Incidentally, I might add that they also asked it in respect of oak, but in this case we were not prepared to do so. Another example is 50603-1, covering hockey sticks.

Mr. More (Regina City): Can you give us some information on hockey sticks. What are the relative import-export figures on them?

Dr. Annis: Imports of hockey sticks were, from all countries, \$21,000; and mostly from the United States.

[Translation]

Mr. Clermont: Mr. Chairman, I did not understand. The witness has mentioned that the Canadian negotiators were not ready to accept alterations with regard to oak.

[English]

Dr. Annis: In oak flooring a reduction was made, but we did not go down as far as did the United States.

[Translation]

Mr. Clermont: Does Canada import a great deal of oak which goes into flooring production in Canada?

[English]

Dr. Annis: Canada imports oak logs which are cut and manufactured into oak flooring here. We also import oak flooring which is competitive with the products of the Canadian flooring mills.

I might add, that we also export, mostly back to the United States, a certain amount of oak flooring which is sawn here from logs which will have been imported from the United States. Therefore, there is a two-way trade in this.

[Translation]

Mr. Clermont: You say that we import oak logs and that we also import oak flooring. Do we import the boards, the oak wood?

[English]

Dr. Annis: Apart from flooring very little, although we do not have a breakdown of import statistics which would permit our giving a completely definitive answer to that.

[Translation]

Mr. Clermont: Would it be possible at a later sitting, to obtain the figures for 1965-66-67 with regard to the importation of oak logs and oak flooring?

• 1135

[English]

Dr. Annis: It would be possible for us to present import data in the form in which it is prepared by the Dominion Bureau of Statistics. I am doubtful that this will give a breakdown which would provide a complete answer to your question, sir.

On the flooring, I think I can give the answer immediately. No; I believe we had better leave this and look up the relative statistics. We can prepare a little table that will provide as good an answer to your question as is possible in the light of the way in which the import data are classified.

Mr. Clermont: Thank you.

The Chairman: I suggest that we also have provided for Mr. More the balance of the figures he requested on the trade in hockey sticks. However, I think it would be more orderly if we allow Dr. Annis to complete his presentation and then have questions.

It was the export figure for hockey sticks?

Mr. More (Regina City): Yes.

Mr. T. M. Burns (Director, Section II, Office of Trade Relations): Mr. Chairman, Canadian exports of hockey sticks to the United States in 1966 were valued at \$731,000.

The Chairman: Dr. Annis, would you care to complete your remarks?

Dr. Annis: Yes. I would like to add two brief comments. The first is that the Canadian concessions in the wood products sector covered in all about \$40 million of imports into Canada from the United States. This, of course, is in sharp contrast to the very much larger volumes of our export trade, which are a benefit in this sector.

My second comment is that the matching of United States and Canadian rates of duty on some items where, in effect, the Americans were already lower than we were and where we agreed to match them, involved an extensive rewriting of the relevant Canadian items. Consequently, if you compare the items in the schedule of resolutions with the former provisions of the Canadian tariff you will note that comparisons are difficult. The schedule is completely rewritten.

The Chairman: Thank you, Dr. Annis.

Mr. Macdonald (Rosedale): I take it that the major volume of our forest products exports,

talking particularly about sawn lumber and certain types of work lumber, is in the softwood rather than in the hardwood area. Is that not correct?

Dr. Annis: Yes; that is correct; although in this area there is a rather important export trade in hardwood plywood, birch plywood and that sort of thing.

Mr. Macdonald (Rosedale): Yes.

Dr. Annis: I am sure Mr. Burns will have much more extensive information and that we will be glad to provide it.

Mr. Burns: Mr. Chairman, our exports to the United States in the lumber field, referring solely to the lumber items, runs in excess of \$350 million a year. Of that total, in 1966, \$33.5 million were accounted for by hardwood lumber.

We could go on, of course, to discuss more highly processed forest products such as birch plywood and birch veneers and so on which also add into the total on the hardwood side.

Thank you, Mr. Chairman.

Mr. Macdonald (Rosedale): May I finish the line of questioning which I began, Mr. Chairman?

The Chairman: Yes.

Mr. Macdonald (Rosedale): You may not have the figures on softwood imports in the United States, but I would assume that we are by far the largest supplier of softwood? For example, parana pine from Brazil, or Scandinavian softwood, would not be sold in any quantities in the American market?

Mr. Burns: Mr. Chairman, I think it is true to say that Canada is by far the major supplier of softwood lumber to the United States.

• 1140

Mr. Macdonald (Rosedale): Perhaps you can help my thinking on this. The Americans having reduced their margin of protection presumably our access to the American market is no better and no worse vis-à-vis a foreign competitor than it was previously because we have all come down a certain amount. Is there any basis for the argument that because the Scandinavian or Brazilian exporters' margin of profit should potentially be greater in the market the drop in the American tariff will be an incentive to them to compete in the market that we have previously been dealing in?

In other words, the Scandinavians or the Brazilians have had to sell in over a higher tariff. Their margin of profit in the whole operation may not have been so good, but if the margin of profit has been reduced by the amount of the duty that has been cut down, then are we concerned about greater competition from offshore sources?

Mr. Burns: Mr. Chairman, if I may reply to Mr. Macdonald's question rather indirectly, I might go back and be a little more precise about the position which Canadian lumber exporters hold in the United States market. In total, exports of lumber from Canada to the United States represent, in an average year, between 10 per cent and 15 per cent of the total softwood lumber supply in the United States, and throughout all these items, the United States is eliminating its duties entirely. These were relatively low rates before the Kennedy Round, of the order of 1½ per cent to, perhaps, 2½ per cent on an *ad valorem* basis. They are actually collected on a non-specific basis. It would seem to me, Mr. Chairman, that the question Mr. Macdonald raised hinges on who is going to get the most benefit from these reductions and in terms of increased profitability, or alternatively, increased opportunities to penetrate the market, Canadian exporters have by far the greatest opportunities in the United States market. In fact, the reductions of the rates will, of course, apply equally as between Canadian exporters and Scandinavian exporters.

On the other hand, we do not have a lumber expert with us today, but it is my understanding that the Scandinavians tend to concentrate in European markets for lumber and, in fact, in some instances of which I am aware, their techniques of production are not such as to make their lumber easily handled in the United States market. In other words, the tolerances to which they cut and so on, are not quite as advanced as those that prevail in North America.

[Translation]

Mr. Clermont: Would Mr. Macdonald allow me to ask a supplementary question?

Mr. Chairman, my question is addressed to Mr. Burns. Will the species of wood that we find in Brazil compete with our own lumber products, here in Canada, let us say in the fields of hardwoods?

[English]

Mr. Burns: Mr. Chairman, I think there is one softwood species that comes from Brazil known as Parana pine. I do not have the total import figures, but I can get them in a moment or two.

Mr. Clermont: I was referring mostly, Mr. Burns, to hardwood species.

Mr. Burns: Yes; I was going on to say that there is one softwood species, I think, but in general, from tropical countries, the main export is in the hardwood sector.

[Translation]

Mr. Clermont: With regard to competition from Scandinavian products in Canada, does it not bear directly on our market in England?

[English]

Mr. Burns: Yes, I think that is right, Mr. Chairman.

[Translation]

Mr. Clermont: Thank you.

[English]

Mr. More (Regina City): Could I just ask one supplementary, at this stage?

The Chairman: Yes.

• 1145

Mr. More (Regina City): You expressed the view that Canada has been the greater beneficiary under the negotiations in this field. I noticed in today's paper one of our largest companies—I presume they are a large exporter to the United States—announced a reduction in dividend and showed a reduction in earnings last year of some 25 per cent. They forecast no improvement for the coming year—very little improvement. On the basis of what you said, how do you account for something like this? Do they now fill the market, and, in effect, cannot expand it?

Mr. Burns: Mr. Chairman, I am not sure of which company...

Mr. More (Regina City): It was MacMillan, Bloedel.

Mr. Burns: Mr. Chairman, this is a difficult question for a government official to comment on. I would have thought one would have to look at the totality of the operation for a firm such as MacMillan, Bloedel, in the forest

products field. I think it is generally known that in the pulp sector, for example, there have been very large increases in production in Canada recently and, in fact, pulp production has been in difficult circumstances in recent months because of over-capacity. This may have some influence on the question which you raised.

Mr. Macdonald (Rosedale): We were just talking, Mr. Burns, about some of our other markets or potential markets. If I could refer to page 38 in *Foreign Trade* of July 1, to the major British tariff concessions of interest to Canada, two items with respect to rough lumber—softwood and dressed lumber, softwood. We have had favourable access to the British market and it is not becoming any less favourable in rough lumber because we are removing the free treatment there—we will be moving in free there—but we are still going to face a tariff protection against dressed lumber, softwood. Will it not be a fact that when the European free trade area comes into full operation, instead of having advantageous access to the British market, we will actually be at a 5 per cent disadvantage to the Scandinavian producers?

Mr. Burns: Mr. Chairman, if I might, first of all, apologize for our publication not being as clearly set out as it might be. The section dealing with British tariff concessions really consists of the rates of interest to Canada under which the British are reducing their MFN rates of duty. In fact, I am sure you will find something in the narrative which says, as far as Canadian products are concerned, 93 per cent of our exports enter the United Kingdom duty-free under the preferential tariff. In both of these cases, Canadian exporters have had and will continue to have, free entry to the British market at this time, of course, in equal competition with EFTA suppliers who also have free entry under the EFTA agreements.

These reductions will really apply to MFN suppliers to Canada. On the rough lumber, the 8 shillings per standard is a very low rate of duty that is not significant in the trade. There is some significance to the reduction of the MFN rates on dressed lumber from 7½ to 5 per cent, but there will remain, as far as Canada is concerned, a 5 per cent preference against those countries that are shipping under the Most Favoured Nations rates.

Mr. Macdonald (Rosedale): But not against, in fact, the real competitors who will have that EFTA treatment?

Mr. Burns: That is right. We will be on an equal basis with the EFTA suppliers.

Mr. Macdonald (Rosedale): Yes. Turning, then, to the European Economic Community in the same general area, at the upper left-hand corner of page 28 the actual items for lumber are not listed. What is the current treatment by the common market of Canadian dressed and undressed lumber?

Mr. Burns: Mr. Chairman, rough lumber on import into the EEC is now free of duty. They have a dutiable item which covered lumber which had been, really, planed on more than one edge or, at least, finished on more than one edge, which is the type of lumber becoming increasingly important as far as our exports are concerned. In this case, the EEC tariff will be reduced in the course of the implementation of the Kennedy Round from its present rate of 10 per cent to 5 per cent.

Mr. Macdonald (Rosedale): And looking at the item under the Brussels Tariff Nomenclature 90(B), "Prefabricated and Sectional Buildings, Other". The other item, presumably, would include prefabricated housing?

Mr. Burns: That is right, Mr. Chairman.

Mr. Macdonald (Rosedale): Thank you, Mr. Chairman.

[Translation]

The Chairman: I now give the floor to Mr. Noël, and then to Mr. Clermont.

Mr. Noël: Pardon me, Mr. Chairman, but I would have an informational question to ask.

No. 50000-1 says free.

[English]

...and then below, there is 17½ per cent, 20 per cent. What does that mean?

Dr. Annis: The explanation is this, sir. The item in question—that is, the new item—has been broadened in scope to include not only goods which were previously free, but some which, until now, had been classified under other tariff items at the rates to which you have referred. In referring to the dutiable rates, you were looking at the present rate volume I believe, were you not, sir?

• 1150

Mr. Noël: Yes. Have you an example of something which was subjected to a duty of 17½ per cent or 20 per cent?

Dr. Annis: On the logs, poles, sticks, roots; the word "roots", for example, is added to that item. The words "driftwood" and "roots"—I beg your pardon, driftwood is not; but the word "roots" has been added to the free category. Previously, roots, as they were not provided for under the free entry item would have been classified under item 50600-1, the general basket category relating to wood and wood products not otherwise provided for at an MFN rate of 20 per cent. This is not an important change.

Mr. Noël: No.

Dr. Annis: But there will be other cases also.

Mr. Noël: All right.

Dr. Annis: One sees another example of the same sort of thing if you look down a little farther at the item which relates to fence pickets and so on.

Mr. Noël: Yes.

Dr. Annis: Or again to the item which relates to wooden handles for certain purposes.

Mr. Lind: A supplementary, Mr. Chairman; what roots do we export? This is what I would like to know.

Dr. Annis: I would not suggest, sir, that this is particularly an important change, but it is at least a technical broadening of a free entry provision, and we are now dealing, of course, with the import tariff in this item—imports into Canada.

Mr. Lind: What roots do we import then, and what volume are these? Are these walnut roots or something?

Dr. Annis: Theoretically, I suppose, they might import brier roots for the manufacture of tobacco pipes, if we made any, in fact, I do not think we do.

Mr. Lind: All I was trying to find out was what roots came in.

Dr. Annis: Well, here we were matching a United States provision which was somewhat broader than ours.

[Translation]

The Chairman: Are you finished with your questioning, Mr. Noël?

Mr. Noël: Yes.

The Chairman: I give the floor to Mr. Clermont.

Mr. Clermont: Mr. Burns, what is the situation concerning Canadian plywood on the European economic Community market?

[English]

Mr. Burns: Mr. Chairman, I hope Mr. Clermont will permit me to answer in English. As far as plywood is concerned, the reduction made by the European Economic Community was a small reduction, from 14 to 13 per cent; as far as soft wood plywood was concerned. I think as far as hardwood plywood was concerned the reduction is from 15 to 13 per cent.

[Translation]

Mr. Clermont: In the past two years, have sales of Canadian plywood increased on the European community market?

[English]

Mr. Burns: Yes, Mr. Chairman, our Canadian exports of softwood plywood have been increasing to the markets of the EEC.

[Translation]

Mr. Clermont: When you speak of soft plywood, are you speaking of among other things of the British Columbia fir?

[English]

Mr. Burns: It is mainly from the species that come from British Columbia, yes.

[Translation]

Mr. Clermont: What is the situation concerning plywood coming from Japan to the Canadian market?

[English]

Dr. Annis: Plywood coming from Japan, as in the case of plywood coming from any other MFN country, will be subject to the reduction which is provided for in the Resolution, a reduction from 20 per cent, stage 2, 15 per cent.

[Translation]

Mr. Clermont: Will Japanese plywood be submitted to a quantity system of quotas or not?

[English]

Dr. Annis: No, Sir, there is no provision for quotas applicable to any imports of plywood or other such products into Canada, and I think one might go on to say, that there

never has been a provision—at any rate in recent times, not since the Emergency Exchange Conservation Act on imports into Canada. Back a few years ago, when some very real problems arose in relation to the importation of plywood and particularly Luan or Philippine mahogany plywood imported from Japan, after consultations between the Canadian Government and the Japanese Government, the Japanese imposed an export control, an export limitation on their shipments of such plywood to Canada. This was continued for several years, but was subsequently removed after the problem had, if not righted itself, at least become of manageable proportions, and, in fact, imports of Japanese plywood into Canada, have been tending to drop off over the last few years. I would not contend that they may not be still larger than some Canadian producers would like, but the trend has been downward.

• 1155

[Translation]

Mr. Clermont: Dr. Annis, is the plywood imported from certain African countries, subject to tariff duties and if so, what is the tariff?

[English]

Dr. Annis: In general, they would be subject to the same provision about which we have been speaking; but there is and for many years has been in the tariff, a special provision for okoume plywood. If you will wait a moment we will look up the rate, I have forgotten it. Under tariff item 50715-3 of the Customs Tariff you will not find this in your Resolution, sir, because there has been no change in the rate there is a provision for plywood of okoume at 19 per cent *ad valorem*.

Mr. Clermont: Would you repeat the tariff number?

Dr. Annis: 50715-3.

The Chairman: I should again remind the Committee that all the items are not in the Resolution; only those that are to be changed because of the Kennedy Round agreement. There are many other items where we will, of course, have to consult the tariff itself. I believe the officials have a copy, and I have brought my own copy here and I have left it behind us on the window sill.

[Translation]

Mr. Clermont: Mr. Burns, in answer to a question asked to you by Mr. Macdonald, you

mentioned that the amount to which totalled our exports of hard plywood to the United States was 33 million dollars. Would you have any statistics to give us as regards our exports to the United States of hard plywood like birch, or maple?

[English]

Mr. Burns: Mr. Chairman, we do have a figure on our exports of birch plywood to the United States, which I think is our principal export market for this product and, in 1966 according to United States figures, our exports to them were valued at practically \$6 million United States. There was a reduction in the Kennedy Round from 15 per cent to 7½ per cent, which I understand has been welcomed very much by the Canadian hardwood plywood manufacturers.

[Translation]

Mr. Clermont: Will this modification from 15 to 7½ per cent occur in stages? Of how much per year will this modification consist?

Mr. Burns: It will consist of five stages.

Mr. Clermont: Thank you, Mr. Chairman.

[English]

Mr. Macdonald (Rosedale): While we are talking about plywood may I ask a number of questions? Just a word about the structure of the industry and going back to the E.E.C. tariff reductions; I presume that the E.E.C. would essentially import unworked logs in its domestic plywood industry that they are protecting with that tariff, is that correct? It is based essentially on imported unworked logs?

Mr. Burns: Mr. Chairman, I think there are two elements in the E.E.C. The first one is the one to which Mr. Macdonald has referred, the domestic plywood industry in the community. There is a second factor which is the interest of those countries of Africa which are associated with the community in the development of their plywood industry.

• 1200

Mr. Macdonald (Rosedale): Is that hardwood or softwood?

Mr. Burns: The industry in Africa is principally hardwood, and I think there has been concern expressed within the community, which we do not believe is justified, that there is a direct competition between hardwood and softwood plywood. This is a question on which views differ, but certainly within the community I think there is a

feeling that all plywood is competitive whether it is softwood or hardwood origin.

Mr. Macdonald (Rosedale): Would I be correct in my understanding that all unworked logs, hardwood or softwood, are embargoed for export in Canada?

Mr. Burns: Mr. Chairman, the export of logs from Canada is subject to export permit under the Canadian Export and Import Permits Act. I do not believe it is true to say there is an embargo on logs, I think you will find in our export statistics a fairly substantial trade in logs from Canada.

Mr. Macdonald (Rosedale): Would there be, in effect, a provincial embargo on export of logs from provincial Crown lands, for example? I have Ontario in mind here.

Mr. Burns: Mr. Chairman, there is a consultation procedure between the provincial authorities and the federal authorities in relation to the export licensing of logs from Canada.

Mr. Macdonald (Rosedale): There is no licence in effect at the moment though?

Mr. Burns: Mr. Chairman, I think, in fact, the procedure followed is that when an individual exporter wishes to make an export of logs he applies for a licence. There is no sort of standing licence in the general sense.

Mr. Macdonald (Rosedale): No. Perhaps it is pulpwood I am thinking of. Is there an embargo on pulpwood exports, or is that again a provincial restriction?

Mr. Burns: Mr. Chairman, pulpwood is also under licence under the Export and Import Permits Act, but as far as Canada is concerned there is no embargo; again I think one would find substantial exports of pulpwood from Canada.

Mr. Macdonald (Rosedale): Thank you.

[Translation]

The Chairman: Before giving you the floor once again, perhaps I should ask whether any other members of the Committee who have not asked questions during the first series would like to ask some now. If not, Mr. Clermont, you have the floor once again. I will then yield it to Mr. Lind.

Mr. Clermont: My question deals with items 5000-1, 5005-1 and 5010-1 which deal with wooden railway ties, wood wastes and logs; from what countries would we be

importing such merchandise? In fact, I note that these products might be coming into Canada duty free. For without doubt, and I mention the case of railway ties of wood, we should have a Canadian market to supply Canadian needs.

[English]

Mr. Burns: I think Dr. Annis can get the statistics on this, Mr. Chairman.

Dr. Annis: I have not got the statistics in front of me, could we have a few minutes to look them up?

Mr. Clermont: Oh, that is all right, Dr. Annis.

Dr. Annis: I was going to say could we give it now, but we had better leave this.

Mr. Lind: One point on 5000-1, do pit props, oak pit props—come into this country free?

Dr. Annis: There is no change on those; they are free and have been free all along.

Mr. Lind: Now, Mr. Chairman, I would like to go back to the log situation that Mr. Macdonald was talking about. Are most of the logs that we export from Canada veneer logs? Do they go but as veneer grade logs? What I mean is peeling logs for plywood.

• 1205

Mr. Burns: Mr. Chairman, we do not have an answer to this question. First of all, there have been no reductions made in export tariffs on logs which are generally free of duty in all markets. We could see if that information is available. I believe the published statistics do not differentiate between the kinds of logs that are involved.

Mr. Lind: Now, one question under...

The Chairman: If there are statistics that differentiate, we could provide them to Mr. Lind for later printing.

Dr. Annis: Mr. Chairman, might we revert now to the question of railway ties. We have a figure for the calendar year 1966. Imports of railways ties, all of which came from the United States, in that year were valued at \$173,000.

Mr. Clermont: Were the ties treated, Dr. Annis?

Dr. Annis: The classification does not say, but they might have been. Treatment would

not disqualify them from entry under this item.

Mr. Lind: Is the type of wood they are made of specified there?

Dr. Annis: No, sir, it is not, and I confess I have no present knowledge. I know that at one time a great many of the railway ties used to be what, in my youth at any rate, was called Georgia pine. Whether or not that is still the case I do not know.

Mr. Lind: Now one question under item 50068-1, flooring of wood. No, we had better go to the one 50066-1, hardwood flooring. Have you a figure there, just for information, of the amount of oak lumber that we import for the hardwood flooring industry into Canada and the amount of finished flooring that is brought in from the United States?

Dr. Annis: I think this really involves the same point that Mr. Clermont raised, does it not? We will attempt to extract this data.

Mr. Lind: Do you have an over-all figure though for hardwood flooring, oak lumber and oak flooring.

Dr. Annis: Yes sir. If you wait just a moment we can get you a figure for that.

The Chairman: Do you have other questions in the meantime?

Mr. Lind: Well, my second question is, do we export any flooring other than birch? I am talking purely about oak flooring now.

The Chairman: I think we had better pause for a moment because I see all the officials busily consulting various reference materials and I do not think there is anybody available at the moment to answer your question.

Dr. Annis: I can give you the figure now for the imports of all hardwood flooring which is \$1 million by value in 1966.

Mr. Lind: That is finished flooring?

Dr. Annis: Yes sir.

The Chairman: I think Mr. Burns wanted to respond.

Mr. Burns: Mr. Chairman, I hope you will excuse me if I do not give precise figures, but I think I can answer Mr. Lind's question fairly accurately. Our exports of flooring to the United States—I have not got the figures for other markets, there is some trade in the United Kingdom—but in the United States

the exports are about \$1 million, the major proportion of which naturally is birch and maple flooring, but there is some element of oak flooring in that figure.

Mr. Lind: That returns to the United States?

Mr. Burns: That is right, that may be of the order of \$250,000 a year.

Mr. Lind: Thank you.

The Chairman: Do we have further questions or comments at this time on the section dealing with lumber products?

Mr. Lind: The only other thing I would like to know is what duty is applied to the exotic lumber namely Phillipine mahogany, okoume and various African species of rough sawn lumber that enters Canada from various parts of the world; the Phillipines, Manila, Africa and South America. What duty is there on the imports?

• 1210

Dr. Annis: Under the new schedule which came into effect provisionally as of January 1, there is no distinction between the various species of lumber, so the provisions which you have before would apply to the exotic ones on the same basis as the other and they would be free of duty regardless of species, provided they are not further manufactured than as set out in these definitions.

As a generalization one could say free across-the-board on lumber.

Mr. Lind: As long as it is rough sawn or in the log, it is free of duty. Is that it?

Dr. Annis: Yes, in fact we could go a stage beyond that. It would be free if planed.

Mr. Lind: If planed; thank you.

The Chairman: Are there any other questions or comments? If not, unless the officials have further explanations to provide with regard to either side of the picture...

Mr. Burns: I might add just a footnote to my comments on our exports of flooring. There is another United States tariff item which talks about flooring in assembled units. This is parquet type flooring and flooring other than in strips and planks. There we have in addition \$1 million of exports.

Mr. Lind: Let us take it one step further. What about the random widths, dowelled flooring. Do we export any of that? It is

plank flooring, random widths, 4, 6, and 8 inches in width with plugged dowel holes?

Mr. Burns: Mr. Chairman, the first figure I mentioned really deals with the United States tariff item that is described as hardwood flooring in strips and planks, which I presume covers what you had in mind.

Mr. Lind: That is right.

[Translation]

Mr. Clermont: Mr. Chairman, undoubtedly, Mr. Burns will later provide the figures with regard to wood logs and sawings which Canada imports. Mr. Annis gave me the amount of imports of railway ties of wood, but I did not get the amount of wood waste and wood logs imported from other countries, as from the United States for instance.

The Chairman: The officials can give you these figures later on.

Mr. Clermont: Thank you.

[English]

The Chairman: Now gentlemen, let us move along. We are at page 100. Are there any questions or comments with respect to page 100, Miscellaneous Items, with the exception of the final item, which fits into a grouping which continues to page 124? Or, shall I say, it appears to terminate just at the conclusion of page 123. I am referring to a grouping dealing with items in the textile and fabric field. Dr. Annis, perhaps you feel you would like to make some preliminary comments.

Dr. Annis: Yes, Mr. Chairman, I would be glad to. The reductions which Canada made in the textile sector—and this is to a greater or lesser extent true also of all other participating countries—are generally smaller than those made in other sectors.

In the Canadian tariff the present *ad valorem* rates are, generally speaking, being reduced by not more than 2½ percentage points, and in a very few cases by 5 percentage points. There is one exception to this, though, in that in the case of the relatively high rate applicable to knitted goods the reduction is from 35 per cent to 27½ per cent in one case.

Almost all of the Canadian textile reductions are being staged over the full period running to 1972. The only exceptions are a few non-competitive products of interest to developing countries, in particular jute fabrics which are not produced in Canada and

saris—not a very important item that was put in in response to a very specific request.

• 1215

Concerning the trade coverage of these items, the total coverage amounts to \$11 million of imports under the British Preferential Tariff—that is, \$11 million on which rates of duty are being reduced; there are of course other much larger items which are not affected—and \$326 million under the Most Favoured Nation tariff. As I mentioned, most reductions are $2\frac{1}{2}$ percentage points, with knitted clothing being an exception.

The principal reductions are on bleached and coloured cotton fabrics where the trade volume affected is \$54 million per annum and there the reduction is from $22\frac{1}{2}$ per cent to 20 per cent. Imports of cotton clothing run to \$36 million per annum and in this case the reduction is from 25 per cent to $22\frac{1}{2}$ per cent.

On wool clothing imported in the amount of \$7 million from MFN countries—and recall that these figures do not include the imports under the British Preferential tariff which is lower but is not affected by the reduction—the reduction is from $27\frac{1}{2}$ per cent to 25 per cent.

Mr. Lind: I have a supplementary question, Mr. Chairman. Do we import any woolen or knitted fabrics from Hong Kong or is that the Most Favoured Nation or preferential?

Dr. Annis: Hong Kong is the one and only Commonwealth country to which the British Preferential rates do not apply. The Most Favoured Nation tariff applies to Hong Kong; the reason is, in part, historic. Hong Kong, of course, for many, many years has been a free port, a free area, so that a very high proportion and in fact, until relatively recently, most of the imports from Hong Kong were not Hong Kong goods; they were trans-shipped goods. This was one reason for not giving Hong Kong the benefit of the British Preferential tariff. It would have been very difficult to determine in what instances the products in question were genuinely entitled to it in the sense of being genuine Hong Kong produce.

Mr. Macdonald (Rosedale): Did the British negotiate for Hong Kong or did they negotiate themselves, notwithstanding their present status?

Dr. Annis: In a sense, vis-à-vis Canada, there really were no negotiations for Hong

Kong but the British negotiated on their behalf when question affecting MFN tariff rates were involved.

Mr. Macdonald (Rosedale): Whom do we talk to when we talk about voluntary export quotas from Hong Kong?

Dr. Annis: I suppose a group which included representatives of both the local authorities and the British—but predominately the Hong Kong authorities.

Mr. Macdonald (Rosedale): I gather voluntary export quotas did not enter into the Kennedy Round negotiations.

Dr. Annis: No, sir.

Mr. Macdonald (Rosedale): Thank you.

The Chairman: Perhaps you can conclude your remarks before we begin questioning more fully.

Dr. Annis: Yes. To continue I might mention that man-made fibre yarns to a value of \$16 million were affected by reductions. The present rates are $22\frac{1}{2}$ per cent with a minimum duty of 22 cents a pound and the method of levying the duty was changed so that when the concessions become fully in effect in 1972, the rate will be a compound duty of 10 per cent plus 10 cents a pound. I contrast that with the previous $22\frac{1}{2}$ per cent with a minimum of 22 cents a pound.

• 1220

Man-made fibre clothing of which imports under the MFN tariff ran to \$29 million in 1966 are being reduced from $27\frac{1}{2}$ per cent to 25 per cent; coated fabrics from 25 per cent to $22\frac{1}{2}$ per cent. The final point that I might mention is that with regard to item 53215-1 on the woven fabrics of wool, the reduction applies only to a relatively small part of the total category; it relates to \$10 million of the trade. This is because there is a present maximum rate on part of an existing item.

I will say no more at this time with regard to the Canadian reductions. There were of course reductions in this field by the United States, the EEC and other countries. Do you wish to go on with those now? If so, probably Mr. Burns could...

The Chairman: We should summarize the benefits that we have obtained in this field very briefly, so that we will have a balanced picture.

Mr. Burns: Yes, Mr. Chairman. I think, as Dr. Annis said to begin with, the level of reductions in the textile sector was generally not as great as in other sectors of the manufactured goods category. As far as our exports of textiles are concerned, the most important Most Favoured Nation market is in the United States, where we have received reductions, I think, on 75 per cent of our total exports of textiles to the United States averaging about 20 per cent.

I should go on to mention, Mr. Chairman, the situation in the United Kingdom, where in relation to most textiles we have free entry now, and that free entry will be preserved. There is a certain number of products in the synthetic area where there were preferential rates of duty as well as MFN rates. In almost all cases the preferential rate was $\frac{2}{3}$ of the MFN rate and the British made reductions in the preferential tariff, which corresponded with those they made in the MFN sector. Thank you, Mr. Chairman.

The Chairman: Do you have any questions or comments?

[Translation]

Mr. Clermont, you have the floor.

Mr. Clermont: Dr. Annis, in your remarks you mentioned that the method of calculating the tariff duties had changed. Do we still encounter the same problems with certain countries with regard to the application of the tariffs.

Dr. Annis: The case that I referred to, where the method had been changed quite radically, was a rather special one, relating to yarns of man-made fibre. At the time when we were reducing rates—only moderately in this field, I must say—it was felt that it would be more equitable to change to a system in this particular field which would secure a smoother progression of rates throughout the area. The present duty of 22½ per cent with a minimum of 22 cents a pound results in a very high rate in *ad valorem* terms on some particularly low priced fibres—and I do not mean low cost in the sense of the troublesome one, but in the relatively low priced fibres, the rayons.

Mr. Clermont: My question was this. I understand there have been problems in the past because various countries took a different basis on which to estimate the tariff. Are those problems erased, corrected; or do they still exist with some countries?

• 1225

Dr. Annis: I am not sure what problems you are referring to. I think that in most cases problems with regard to this sort of thing would continue unchanged. Have you in mind the difference between evaluations on a c.i.f. basis?

Mr. Clermont: I mean the problem of the basis on which to estimate the tariffs.

Dr. Annis: There is no change in problems of that sort.

Mr. Clermont: We still have problems?

Dr. Annis: Yes, we will still have problems.

The Chairman: Do you have any further comments? We will hear Mr. Clermont followed by Mr. Macdonald.

[Translation]

Mr. Clermont: I notice that under tariff numbers 53010-1 and 53020-1, the tariffs are going to be reduced from 10 cents to 5 cents on January 1, 1972; or, if you wish, will decrease from 15 per cent to 7½ per cent. Is this so?

Dr. Annis: Yes, sir, in that particular case I might add that this is not a case that gives rise to trouble. In fact those are both items about which we have had no complaints; there are no problems at all. The first of the two items to which you referred is one that is important in trade terms. Using everyday language, I suppose one would say that this is the wool top item and no wool tops are produced in Canada. This is a raw material for the Canadian wool manufacturing industry. You will note that there is already free entry on that item under the British Preferential Tariff, and in fact a very large part of the imports—the great bulk of the imports—comes already free of duty from the United Kingdom and Australia. The effect of the change will be to make a little more competitive situation for them and this will be a benefit as far as the Canadian wool fabric manufacturing people are concerned.

[Translation]

Mr. Clermont: I also notice that under tariff No. 55303-1 the present tariff is 30 per cent and on January 1, 1972 it will be reduced to 25 per cent. Is this a fact?

[English]

Dr. Annis: You are referring, sir, I believe, to wearing apparel of silk—55303.

[Translation]

Mr. Clermont: I wish to speak of:

"Clothing, wearing apparel and articles, made from woven fabrics, and all textile manufactures, wholly or partially manufactured..."

[English]

Dr. Annis: That item, sir, is in a sense a residual item, raw cotton and so on having been looked after elsewhere. The imports under that item are silks, which are relatively non-competitive and also relatively small and declining. The rate of duty has been somewhat out of line. This will bring it in line with the more important items relating to articles of man-made fibres and of wool.

The Chairman: If you have no further questions on this section, let us move along to page 123. I see we have two items at the bottom of the page, one for coal and one for gas. I would like to ask very quickly, what the comparable situation is with respect to exports of these items.

Dr. Annis: If I may answer—Mr. Burns can confirm this—in each case any exports to the United States are already free of duty and, of course, in the case of gas the United States is the only potential market.

The Chairman: They are already free of duty?

Dr. Annis: Into the United States, yes.

• 1230

The Chairman: What is the basis for this. It does not seem to be reflected in the schedules for the present rate. Perhaps that could be put on the record.

Dr. Annis: Did not your question relate to our exports? This relates to our imports. These are the rates...

The Chairman: Oh, yes; I am sorry. Our exports are already duty-free into the United States?

Dr. Annis: Yes. On imports the situation is this: Item 58800-1 is the main item relating to bituminous coal. There is another item for anthracite coal, which provides, and has for quite a number of years, for free-entry. There is also a provision under which bituminous coal for certain specified purposes of which the most important is for coking for metallurgical purposes, can enter free of duty. But in

trade terms this is the very important item which relates to other bituminous coal.

The present rate of duty is 50 cents per ton under the most favoured nation tariff. The imports are quite large. In 1966 they were valued at just over \$70 million.

The resolutions provide for the complete removal of that duty over the four-year period ending in 1972; and the first cut, from 50 cents to 40 cents, is already in effect on a provisional basis as of January 1.

The removal of this duty is important to Canadian coal consumers in the sense that it will have a significant effect on their costs. It is also of some considerable importance to the Receiver General of Canada in that it involves a substantial sacrifice of revenue. The amount of duties collected on this coal as of now is close to \$5 million a year, and this revenue will decline and disappear as a result of the resolution.

On the protective aspect of the situation, there was a time when the duty on coal was important to Canadian producers, particularly those in Cape Breton Island. This is no longer the case. New arrangements have been made under the Cape Breton Development Corporation, and provisions for producing and marketing their coal have been set out. The removal of the duty will not affect their sales or their competitive position.

There is no objection to this resolution from the point of view of producers. It is a matter where there is a consumer interest involved, and there is also a revenue interest involved.

I might add that it is no secret—they have made their representations public—that there have been representations suggesting that this duty be removed in a single step rather than be staged. The main argument against doing that has been the revenue consideration.

The Chairman: This gives the government an opportunity to recoup from other sources, or, through increased yields of existing taxes, to increase economic activity, and so on?

Dr. Annis: Exactly.

Mr. Lind: Is this duty applied on the long or short ton?

Dr. Annis: For Canadian purposes the ton is 2,000 pounds.

The Chairman: If there are no further questions or comments on these two items, let us move to page 124, musical instruments.

It will be interesting for the Committee to note, this being Robert Burns' birthday, that we are granting a substantial concession on the importation of bagpipes and complete parts thereof. Some consideration has been given to those who are admirers of this particular form of music.

• 1235

Dr. Annis: I am sure, Mr. Chairman, that this change will be welcomed by every true Scot. We should not, however, overstate its importance, because you will note that provision already had been made for free-entry under the British preferential tariff. Therefore, bagpipes which came from the United Kingdom, including Scotland, were already free. This will mean that if someone wished to import bagpipes from another source he will be able to do so at a lower rate of duty.

The Chairman: It will be a challenge...

Mr. Macdonald (Rosedale): Have there been any squeals of complaint?

Dr. Annis: Not a wail.

The Chairman: Of course, we must still recognize the fact, strange as it may seem to some, that there are admirers of the bagpipes and their music who are not necessarily of Scottish origin.

In any event, if there are no further questions...

Mr. Macdonald (Rosedale): Mr. Chairman, I have been focussing on item 59730-1, phonograph records. Is this merely the segregation of it from a previous item?

Dr. Annis: Yes.

The Chairman: We can now move on to page...

Mr. Burns: Mr. Chairman, it might be useful, just a footnote, to say that we have an export interest in this area, particularly in pipe organs. This has been a traditional industry in Quebec. Exports to the United States have been running at over \$1 million and the duty is being reduced from 10 to 5 per cent.

Mr. Clermont: Mr. Burns, do they come from Ste. Therese or from St. Hyacinthe?

Mr. Burns: Particularly from the Casavant people, I think, Mr. Chairman.

The Chairman: Let us move on to pages 125, 126, 127 and 128 which relate to a combi-

nation of leather products and certain types of rubber products, including the items on boots and shoes.

Mr. Lambert, do you have a question?

Mr. Lambert: May I take it that in the 6,100 series, particularly in relation to canvas shoes with rubber soles, slippers with insoles and so forth, the greatest control imposed upon their importation to Canada is by quota rather than by the customs tariff.

Dr. Annis: This may well be. There are two potential obstacles in the way of imports of canvas shoes with rubber soles from the low-cost sources that have occasioned some difficulty in the past. One is the tariff, and, as provided for in these resolutions, there is a small reduction in the applicable rate from 27½ per cent to 25 per cent.

It is also true, as you say, Mr. Lambert, that there is control in the sense of export restraints.

An hon. Member: Import restraints.

The Chairman: Restraints on exports from other countries into Canada.

Dr. Annis: I beg your pardon. I should retract what I have just said. Until fairly recently Japan, Taiwan and mainland China had exercised export restraints on shipments to Canada, but, in fact, with a somewhat improving situation those restraints were lifted in 1955.

Mr. Macdonald (Rosedale): Does this improving situation indicate some restructuring of the Canadian industry?

Dr. Annis: I suppose that is correct; or, at any rate, correct in part in the sense that there has been an important change in material and in manufacturing methods. I could quickly get out of my depth here, and possibly should not say too much, but if one thinks in terms of the activities of Dominion Rubber Company in their Quebec plant, they have changed their methods quite a lot and I think this has very markedly improved their situation. I really should not be talking about the details here. This is a field where I just do not know the answer.

• 1240

Mr. Lambert: I feel that one of the countries that might benefit in this connection—whatever benefit there may be—Czechoslovakia. I have seen on the market what seemed to me to be increasing quantities of

Czechoslovakian canvas rubber-soled footwear, of a good quality, incidently, and this may have served to disperse, perhaps, the type of import.

Dr. Annis: This may be, sir. The important point that I would like to make is that the reduction is a small one and the smallness of the reduction is explained by the fact that this is an area where there have been and continue to be problems.

[Translation]

The Chairman: Mr. Clermont, do you wish to take the floor?

Mr. Clermont: Mr. Chairman, first of all, from what country does Canada import its leather, and secondly, from which country does it import shoes? I do not wish to know the names of all the countries if they are numerous, but simply the two or three most important exporting countries?

[English]

Dr. Annis: Might I restrict my answer, first, to leather boots and shoes.

Mr. Clermont: I mean crude leather.

Dr. Annis: I will come to that in a moment but, first, on the footwear. The main item for footwear is the item that appears on the top of page 127. The preceding item is an unimportant one. This is the important item, which provides for boots, shoes, slippers and insoles of any material not otherwise provided for. This includes the leather and the leather is the bulk of it. That is the item where our rate of duty is being reduced in five steps from $27\frac{1}{2}$ per cent to 25 per cent. In 1966, imports under that item were from the EEC, \$8.1 million; from the United Kingdom \$4.8 million; from Japan \$3.4 million; from the United States \$2.4 million and from Czechoslovakia \$2.2 million. You will note this is quite a little change from what we used to think of the situation being when the United Kingdom was the main course of such footwear. This situation has changed.

[Translation]

Mr. Clermont: Was the change occurred followed by a decrease in imports?

Dr. Annis: Yes, a decrease in imports from the United Kingdom, and it is also safe to say, although I do not have the detailed figures right here, that in relation to the total size of the Canadian market, imports as a

whole have been a declining share of that market.

The Chairman: If you have no further questions on these items...

[Translation]

Mr. Clermont: Mr. Chairman, I previously asked from which countries was Canada importing its raw leather.

[English]

Dr. Annis: The answer to that question would involve adding up quite a few figures we have here. Would it be possible for us to do this and give you the figures later?

The Chairman: If we have no further questions on the categories we have been considering up to page 128, let us take a look at the balance of page 128. I would presume, Dr. Annis, that your general comments about the very moderate changes with respect to leather footwear also apply to rubber footwear—rubber boots and shoes 61700-1?

● 1245

Dr. Annis: Yes. The situation there is a little bit different in that on the rubber boots and shoes, the present rate of duty is $22\frac{1}{2}$ per cent which will be scaled downward to 20 per cent. It is the same in the sense that the reduction is $2\frac{1}{2}$ percentage points. It is different in the sense that we start off on a lower point and end at a lower point than in the case of either leather footwear or rubber-soled canvas footwear.

The Chairman: I see a somewhat more substantial cut in the duties applying to:

Tires and tubes, wholly or in part of rubber

Perhaps Mr. Burns could tell me whether we obtained corresponding cuts in export markets for our own rubber tire products?

Mr. Burns: Yes, Mr. Chairman. Again, the United States is our principal market for tires and tubes. Our exports, if my memory serves me right, have been running between \$4 million and \$5 million a year. The rate of duty before the Kennedy Round reduction was $8\frac{1}{2}$ per cent and the final rate of duty, I think, will be 4 per cent for rubber tires and tubes.

The Chairman: Is there an explanation for the nature of the reduction here that they put into the new schedule of duties with respect to automotive products?

Dr. Annis: Rubber tires and tubes are not under the automotive scheme...

The Chairman: I realize that, but...

Dr. Annis: ...but, certainly they are related and they are items in which there is, as Mr. Burns has pointed out, important two-way trade. It is also an item where, particularly I think having regard to the pretty strong competitive position of the Canadian producers, the existing rate—the present rate—is really quite high.

Mr. Thompson: What volume do you have in regard to tube and tire imports from Japan in 1967?

Dr. Annis: I do not have a figure in front of me. We can look it up, but I can say that it is small. It is \$1.1 million from Japan in 1966.

Mr. Thompson: This is a very strongly increasing import, I think. What is the change in regard to the new tariffs on this, if any, from a country like Japan?

Dr. Annis: As of January 1 of this year, the reduction is from 22½ to 21½ and the reductions will continue until 1972 at which time the final rate becomes 17½ per cent. I might add that those imports from Japan are still relatively small as compared to imports from the United States which were almost \$10 million in 1966.

Mr. Thompson: I believe the statistics for 1967, though, are much much larger than they were for 1966.

Dr. Annis: This may be. I do not think any full calendar year figures yet are available and we do not have the monthly figures available right here.

Mr. Burns: Mr. Chairman, if I might apologize for speaking off the top of my head in terms of our exports in tires and tubes. I mentioned the figure of \$4 million or \$5 million. I should have really talked about \$9 million in terms of our exports to the United States.

The Chairman: If there are no further questions or comments on this particular item, let us move on to page 129. If there is nothing on that page, we will move along to page 130. Again, we are dealing with pages which have items dealing with a number of different miscellaneous categories. We will continue to page 131, page 132, page 133, page 134, page 135. Yes, Mr. Lambert?

Mr. Lambert: Is item 71100-1, "All goods not enumerated in this Schedule", a sort of a basket catch-all item?

• 1250

Mr. Annis: Yes, sir, it is.

Mr. Lambert: How does it operate? In most other instances the categories have the usual basket clause—the n.o.p. Is this n.o.p. to n.o.p.?

Dr. Annis: Yes, sir, it is, but it is also a little more than that. Although you are quite correct in saying that most of the subdivisions, such as manufactures of iron or steel, have an n.o.p. clause, there are some that do not. The section on foods is one that does not. Therefore, in some sectors item 71100-1 covers a substantial amount of trade.

Incidentally, the scope of this item will be reduced when the new schedule of chemicals is introduced in that that will have the effect of taking quite a few unenumerated chemicals out of this basket of basket items, as you have described it.

Mr. Lambert: I see. It seems to me that this is potentially a defence mechanism and can be used, shall we say, as a non-tariff mechanism as a result of interpretation of the mix of materials in a commodity because by the words, "When the component material of chief value in any non-enumerated article consists of dutiable materials enumerated in this schedule" and so on, you are determining what is the mix of materials. It could be that by administrative action goods could be put into this high rate—and it is a high rate item.

Dr. Annis: As I read it...

Mr. Lambert: Did this item exist in this form within the customs tariff previously?

Dr. Annis: Yes, sir. This item has existed in this form in the customs tariff for a very long time; in fact, almost without amendment, so far as working is concerned, since 1907. Of course there have been changes in the rate. In the period since 1935 there have been a number of reductions in the rate. Under these proposals the rate will go from 20 per cent to 17½ per cent. If you look back a little over 20 years, I think you will find a period when 25 per cent was the typical rate.

Mr. Lambert: Have we ever had representations from our trading partners that they have had difficulty with this particular item?

Dr. Annis: I cannot recall any, sir.

The Chairman: Mr. Burns, do our trading partners have similar basket clauses in their tariffs?

Mr. Burns: Mr. Chairman, I am subject to correction but I think all tariffs have a final basket of this kind. Many countries now adopt the Brussels nomenclature, but the United States' tariff, which does not use the Brussels nomenclature, has a final item which refers to goods and articles not otherwise enumerated.

The difference, if there is any, is that the new United States' tariff is very much more precise than is the Canadian tariff, and deals with individual products in much more detail, generally speaking, than does our tariff. Therefore, the usage of this item is not as great, proportionately, as the usage of the old 711 item in the Canadian tariff.

Mr. Macdonald (Rosedale): How does the Brussels nomenclature handle this? Is it so precise that it does not require baskets?

Mr. Burns: In general, the Brussels nomenclature has a basket in every chapter.

Mr. Macdonald (Rosedale): Are there baskets for the chapters?

Mr. Burns: Mr. Chairman, I would have to take that as notice.

The Chairman: At page 135...

Mr. Clermont: Page 134, Mr. Chairman.

The Chairman: Page 134?

[Translation]

Mr. Clermont: I would like to speak of tariff number 68905-1: "mineral wool". From what country does Canada import mineral wool?

[English]

Dr. Annis: Predominantly from the United States. In 1966, imports were \$588,000 in value. The United States was the principal supplier. I do not think I have a separate figure here.

The Chairman: If there are no further question on...

Mr. Lind: Mr. Chairman, I have one further question on mineral wool.

The Chairman: Yes?

Mr. Lind: Is this a special wool that is used in refrigeration, or something like that?

• 1255

Dr. Annis: It is an insulation product used in refrigeration and also in house insulation.

Mr. Lind: We import that?

Dr. Annis: Yes, to some extent. Of course, we also manufacture it here, and these imports are pretty small in terms of the total market. Mineral wool could be defined as a fibrous material that is used as a heat or sound insulator. Usually it is made by mixing rock with molten slag and then blowing steam through it. In trade terms I think "rock wool" would be interchangeable with the term "mineral wool".

Incidentally, I can now give you the figure for imports from the United States: \$581,000 out of the total of \$588,000. There were \$6,000 worth from the United Kingdom and \$1,000 worth from the EEC. Those figures all relate to 1966.

The Chairman: We will now move on to page 136. Perhaps by way of explanation, Dr. Annis, you could explain why the items on pages 136 to 145 are in a separate resolution. Upon superficial examination they seem to cover the categories we have looked at in the preceding resolution.

Dr. Annis: Yes, Mr. Chairman, I would be very glad to do that. As you have said, in one sense resolution 8 covers the field and in another sense it does not. Resolution 8 contains the main package of tariff changes required to implement the Kennedy Round negotiations. Resolution 9 is partially a housekeeping resolution and partially more than that, but I think you are correct in considering it is before the Committee in that there is some relationship to the Kennedy Round resolutions.

I can give you, rather briefly, an explanation of what it is all about. Primarily this resolution implements recommendations of the Tariff Board, which were not involved in the Kennedy Round negotiations. For example, item 40920-1 brings into effect the Board's proposal of free entry for certain machinery equipment that is used in grading and packaging fresh fruits and vegetables. To go to a more important group in terms of trade, the new schedule of tariff items proposed by the Tariff Board in its report on reference 130, on machinery and apparatus for the mining industry, is included in this resolution. The items concerned are 41001 to 41045-1 inclusive.

I might say that in this case the Board recommends that, except for certain special cases, one or other of two uniform sets of duties should apply to all machinery and equipment in the mining schedule; that most mining equipment of a class or kind made in Canada be dutiable at rates of 5 per cent BP and 15 per cent MFN; and that kinds not made in Canada be free of duty. Now, this involved both decreases and increases in rates of duty.

Some of the items on which the Board recommended higher duty were bound under the GATT. To implement the Board's proposals these items had to be renegotiated. The re-negotiations were conducted at the same time as the Kennedy Round negotiations. No, I beg your pardon, in this case they really preceded it. But the negotiations have been completed now. I do not know that it is directly related to the work of this Committee and that I should go into the minor changes that were made from the board's recommendation.

• 1300

The Chairman: I do not think it is necessary although it is a fact that the entire Resolutions tabled by the Minister on November 6 were referred to the Committee. I say this just for the record, but unless the Committee feels that they want to go into them or into the details of this Resolution, I will not ask you to give us information on them.

I would like to ask just one brief further question. To what extent does this Resolution reflect any cuts in tariffs of other countries with respect to these items?

Dr. Annis: I would think that it is really not relevant to that. This Resolution is partly, you might say, the sort of thing that would normally be done in a budget. In part it reflects housekeeping adjustments which were related to changes—to substantive changes—that are made in Resolution 8.

The Chairman: Do we have any questions on this Resolution? If not let us move along to page 146, Resolution 10. Perhaps you could explain why the items in this resolution are set out separately instead of being in the major Resolution 8.

Dr. Annis: Resolution 10 deals with purely housekeeping amendments to the tariffs. This Resolution provides for amendments to three drawback items. Two of the changes are consequential to recommendations made by the Tariff Board in respect of mining machinery and the third relates to a re-numbering

of the tariff items for salt where they are provided for elsewhere. So this is purely a housekeeping technical amendment.

The Chairman: Thank you. If there are no questions on this resolution we will then look at Resolutions 11 and 12. I believe we have already considered these Resolutions in, at least, a preliminary way when we had before us the Minister of Finance and the Minister of Trade and Commerce. They permit, in effect, a postponement or a change in the staging in case our trading partners do not reciprocate pursuant to the original agreements. Am I correct in this, Dr. Annis?

Dr. Annis: Yes, sir, you are. This is really a coming-into-force provision and, as you say, it contained there a power conferred on the Governor in Council which would have permitted the postponement of the initial effective date if our trading partners had not moved when they were supposed to.

The Chairman: If the Committee will permit me to ask one final brief question, just for the record as many people are following these proceedings. It is correct, of course, that the changes in the chemical tariff reflecting the recommendations of the Tariff Board will be dealt with separately. However, it would appear from the publication *Foreign Trade* that in the GATT negotiations Canada did agree with respect to chemicals as distinct from plastics, not to impose ad valorem rates above 15 per cent; to remove the 5 per cent rate on fertilizers and undertook not to impose rates higher than 10 per cent, 12½ per cent, 15 per cent or 17½ per cent on plastics depending on the nature or degree of manufacture of the product. How, legislatively, will these undertakings be implemented?

Dr. Annis: I think the Minister of Finance in his opening statement to this Committee referred to that and said that legislation would be introduced at a later stage of this year. He referred to the budget in that connection. I do not think he said unequivocally that it would be done in the budget, but he said that it might be. Possibly we should go back to his text to check this. However, that would be a natural occasion on which to introduce resolutions which have been forecasted in this regard and in respect of which there is a commitment to do certain things as of July 1 under the Kennedy Round Agreement and where the government has announced its intention of introducing legislation between now and July 1 providing for

an effective date of July 1 next, with respect to changes yet to be introduced as regards chemicals.

• 1305

The Chairman: But the agreements with respect to maximum rates that Canada entered into during the GATT-Kennedy Round negotiations are not reflected specifically in the Ways and Means Resolutions of November 6, which were referred to us by the House.

Dr. Annis: That is correct, sir.

The Chairman: Do you have any further questions on this aspect? If not, I would suggest that we adjourn until 3:45 p.m. at which time we will hear from the Consumers Association of Canada. Even though we are beginning now to hear witnesses from outside the government sector, we will continue to have Dr. Annis and his colleagues as well as Mr. Burns and representatives of his and other relevant departments in attendance. We will then be in a position to hear from them where it is relevant with respect to arguments made or points raised in the briefs, as we proceed. Since Dr. Annis, Mr. Loomer, Mr. Schwarzmann, although he is not with us this morning, Mr. Burns and his colleagues are now concluding their period as principal witnesses before the Committee, I think you would want me to thank them for their very informative and useful presentations and their efforts to deal fully with our questions.

[Translation]

Mr. Clermont: Mr. Chairman, for some time to come, I presume that we will be able to ask some questions concerning the general tariff?

The Chairman: Yes. I suggest that after having heard from the government witnesses we will again hold a sitting to discuss these general matters. I think it might perhaps be easier than to delay the appearance of the witnesses outside the public sector. Is the Committee in agreement with this suggestion?

Mr. Clermont: Yes, Mr. Chairman.

Mr. Lambert: Mr. Chairman, would it be to discuss a question of principle in tariffs or would these questions deal directly and closely with the resolutions which the House send bills to the committee.

Mr. Clermont: It would be on the totality or the whole of the Kennedy Round Agree-

ments or their philosophy, as my colleague, Mr. Noël, has mentioned.

Mr. Chairman: Another plan would be ...

Mr. Clermont: I would not ask for a special sitting.

Mr. Lambert: No, I do not foresee that we have the possibility of discussing the principles of the tariff in general.

Mr. Clermont: No, there is one question among others which I would have liked to ask: Prior to the GATT agreements what was the average of the tariff and, following the agreements of the Kennedy Round, what should be the average tariff for Canada?

The Chairman: After thinking it over, perhaps it might be easier to choose a short period this afternoon ...

Mr. Clermont: No, I would not want us to change the established schedule for this afternoon, Mr. Chairman. The Consumers' Association representatives are supposed to be here this afternoon. If no opportunity arises well, then, we will await another occasion.

The Chairman: Since you do not wish to delay the testimony of Dr. English, we will no doubt be able to find time later on for you to ask your general questions.

Mr. Clermont: Mr. Chairman, we might perhaps ask them following the submission of briefs.

• 1310

The Chairman: ...by representatives of the public sector. Perhaps the opportunity will then arise.

[English]

The Chairman: This meeting is adjourned until 3:45 p.m.

AFTERNOON SITTING

• 1555

The Chairman: Gentlemen, I think we are in a position to resume our meeting, at this stage, unofficially.

Our witnesses today are appearing on behalf of the Consumers' Association of Canada and presenting the brief on behalf of the Association is Dr. English of Carleton University whom, I believe, has acted in the past and continues to act as consultant to the

Association. With him is Miss Frances Janzen whom, I believe, is Executive Secretary to the Association.

Of course, we have had the brief for study for several days and in line with our usual practice, Doctor, I would ask you not to read it in its entirety, but merely to summarize it for 5 or 10 minutes. Since the brief is not long, actually it would not take you beyond the period anyway, but I turn the floor over to you for that purpose.

Dr. H. E. English (Executive Vice-President, Consumers' Association of Canada): Thank you, Mr. Chairman. I should explain one or two things about my presence here before talking about the content of the brief.

I am a Vice-President of the Consumers' Association of Canada and a member and the chairman of the Economic Policy Committee of the Association.

Over the last two or three years we have tried, through the Economic Policy Committee of the Association, to gather together a little more expertise on the economic questions which obviously bear on the consumer's interest. The individuals on the Economic Policy Committee are all economists, and most of them are academic economists like myself. The Association calls upon them when matters in their areas of interest arise, requiring the assistance of the Association.

This particular subject, of course, as some of you may know, is a field in which I have had a particular interest myself as a research economist. It is therefore somewhat a source of regret to me that at the time this had to be prepared I was out of the country for three and a half weeks. I therefore depended upon one of my colleagues to make the preparation. None of us has had the time we would have liked to have had to devote to what we regard as an important subject bearing upon the consumer's interest.

To treat this subject as fully as we should as consumers we would have gone over the entire range of tariff cuts and dealt with their implications. Most of us being volunteers in this work, and having other full time jobs, have simply not been able to do this. We do, however, want to mention the great importance, to consumers across Canada of tariff reductions, particularly on finished products. We naturally urge all those responsible for legislation to take action in that direction.

I also wish to say, arising out of the latter part of this brief, that generally we feel, par-

ticularly those of us who have a background in economics and are working for the association, that at this time in Canadian history, or from here on, there is much less need for any concept of conflict between the consumer and the producer interest in trade policy than there ever has been in the past. The Canadian economy is maturing and there are now many opportunities for our secondary and primary industries to take advantage of export opportunities without having to depend in any way upon the kind of protection that this country has seemed to require during its years of infancy.

These general remarks indicate what I think are the specifics of our brief that should be considered. The three points referred to in the brief are very easy to summarize. The first is the desirability of stronger direct representation of consumers in future Canadian trade negotiations. I would say, with respect to this point, that the Association itself somewhat fell down on the Kennedy Round. We should have been more active than we were at an earlier stage in the consideration of the Canadian government's plans for the Kennedy Round. There was, after all, a committee called to consider these plans, and to the best of my recollection we did not make representations to that committee. We regret that now, and perhaps I can go into some of the reasons for that.

One of them is the emergence, from the consideration, of effective tariffs, which is illustrated in this statement. It is evident to some of us, even on what must really be an inadequate review of the cuts that have been made, that there has been an emphasis on cuts on materials and components and machinery—the things that mean most to industry—and much less on finished products.

This means that in some sectors of industry there has been little or no reduction in effective tariffs—that is, effective protection—because the tariffs on inputs have been cut sufficiently so that the reductions in tariffs on output are not going to—affect the industry's protection significantly. That comment does not apply universally, but in some sectors of our economy we believe that to be the case. I have seen one other careful estimate of this, which I am not at liberty to discuss at the moment—perhaps later you can get access to it; it is not my own work—and it indicates that a fair sector of the cuts have not produced effective protection.

The second point of the submission relates to the regional impact in Canada of the relax-

ation of Canadian trade restrictions. This really relates to my general comments of a moment ago.

In view of the possibility of strengthening the productivity of Canadian manufacturing, in response to the changes in tariffs by other countries, and the reduction of protection in Canada, there would appear to be many opportunities for improved performance from industries located in the central region of Canada—in Ontario and Quebec—where most of our secondary manufacturing is. It is in this sector that industry in the past has felt most dependent upon substantial levels of tariff protection. If these industries can respond to new opportunities abroad and to the pressures arising from the reduction of Canadian protection then there is good reason to expect that the benefits of tariff reductions by our trading partners and by ourselves may go more to the central region of Canada than to the outlying regions.

• 1600

Again, studies which I have seen, which endeavoured to estimate these impacts, indicate that there is a real possibility that it is no longer necessary for us to regard reduction of tariffs as an issue on which the regions of Canada need to come into economic and political conflict, because the benefits may now be shared more equally and, indeed, may come primarily to the central region.

This involves a great deal of further elaboration but it is well worth careful study, because I am confident that the conclusions will be in the direction that have been indicated by the preliminary studies I refer to.

Finally there is the importance of continuing efforts to reduce those impediments to international trade which will still remain after the Kennedy Round tariff cuts are completed. I recognize that this is probably not within the present terms of reference of the Committee. I only wish to put on record that the Association feels, particularly given the points I have just made, that this is a highly warranted approach to policy. Indeed, it affords to Canada the opportunity for statesmanship, given the fact that our own interests are compatible with statesmanlike moves in the area of trade policy. We would therefore like to have this view on record.

I can express from my own work, and from that of some of my colleagues, further thoughts on what kind of commercial policy changes might be worth exploring, but I do

not believe that that would be in order at the moment. Therefore, we are now open for your questions and comments on what we have said in the brief and what I have just said personally.

The Chairman: Thank you, Dr. English. Before proceeding to questioning, and since we are trying something a little different, perhaps I should ask Dr. Annis if he has any preliminary comments.

Dr. Annis: Really nothing.

The Chairman: I recognize, of course, that your own position is such that there are limitations on how fully you can comment in areas of broad policy. However, if there are aspects that you would like to draw to our attention we wish to give you the opportunity of doing so.

Dr. Annis: Mr. Chairman, I have nothing of real substance to contribute at this point. The only remark I would like to make is that as one who is a member of the Canadian Tariffs and Trade Committee, which held hearings and received briefs before the Kennedy Round started, we were rather disappointed at that time at not receiving a brief from the Consumers' Association. Therefore, it is most welcome from that point of view to be in a position to expect that if we have another exercise of this sort we can look forward to having a more full and comprehensive statement of consumer interest. Having said that, I would hasten to add that there were, of course, persons who spoke on behalf of the consumer, and I do not think that Committee failed to recognize that the consumer interest was a very important element of the situation to be kept in mind.

• 1605

The Chairman: Thank you, Doctor. Now, I will ask members who wish to ask questions at this time so to signify. I see Mr. Macdonald, and Mr. Lambert.

I might say also that we are now in a position, and have been for several minutes, to proceed officially.

Mr. Macdonald (Rosedale): Professor English, referring first to your remarks about consultation with the Consumers' Association of Canada, and recognizing the financial difficulties that your association is under, what would be the possibility of your association undertaking an examination of the current tariff structure of certain items that affect the consumer most; for example, shoes,

clothing, food, hard goods, and so on? I mean, examining it, presumably from outside the industry, because it is likely that the industry would not be co-operative in this regard, and deciding just how much fat there is in the tariff, how much fat there is in the Canadian industry, and try to assess for yourselves what cuts could be made without either destroying the industry or doing it undue damage. Would you suggest that at another time, for the next negotiating round, you might undertake that kind of study?

Dr. English: The difficulty, Mr. Macdonald, is one of financing. I think probably it is recognized that the services of economists are now coming higher because of the relative shortage, given demand, and this means that it is very difficult to get.

First of all, I would say if you are going to do a study of this kind you want it done well or not at all; and it is not easy to do well, it takes time and it really does take a measure of co-operation from industry.

I do not think one should be too discouraged about that because a sound and objective economist can usually get co-operation from industry. I can say that from experience because we have done a lot of work of this kind in recent years in connection with one of my other activities with the Private Planning Association of Canada where we have been examining just these questions in respect of some of our major industries. Studies will be forthcoming soon concerning some of our major industries and the implications of trade liberalization for them.

The industries you have mentioned are not among those being studied except in so far as what you said about clothing which may be covered a bit by one of our studies; it is really on primary textiles but something may be said that is relevant for that field.

You say that association was operating on the basis of foundation grants. It is not normal for foundations to give grants to an association like the Consumers' because in a sense it reflects a group rather than a direct research interest. It is easier to get money from private sources if you are a research operation.

Mr. Macdonald (Rosedale): Addressed to you in your group capacity rather than your professional capacity, what is your group's viewpoint about certain industries such as the shoe producers or textiles, particularly in

some of those areas where not even tariff protection has been effective and where they have had to seek voluntary export quotas? Is the Consumers' Association recommending that, in effect, they should get out of the business in Canada or be exposed to the risk of full competition and just take whatever the results may be?

Dr. English: Well, I think the pure consumer interest would be in that direction. If one could demonstrate there was no other alternative, but that we should specialize in other product areas and move out of those areas, then that would be a conclusion which the direct consumer interest would be forced to come to.

Now, I think the fact that the consumer, like every other citizen, has an attachment to a producer—either is a producer or the wife of a producer—means of course that as a citizen with these two interests he will want to look for ways of achieving an adjustment in the economy which will result in the least damage to legitimate producer interests. But in the economy as a whole, the interest of the people lies in doing what we can do best and that may involve buying some of these consumer products from other countries.

• 1610

Of course this has happened already. Over the last 15 years there has been a major shift to import sources for certain types of textiles, and it is not even under existing levels of protection; we did not avoid that shift because we simply were not as strong in those areas as some foreign countries.

On the other side of it, I would say that the experience of the European Common Market which has, of course, gone to free trade for a group of six countries—some of them small, a lot smaller than Canada—has not been that whole industries have gone under but rather that they have adjusted to the challenges and come up with new product lines. I can suggest instances in the Canadian economy where exactly the same thing has happened as the result of changing international competitive conditions.

Some of our machine tool producers are a good example of this. People used to say at the end of the war, "They will go under; they do not have a chance in peacetime competition". Well, some of these firms are no longer producing machine tools of the kind they produced during the war but they are producing something else, and by last count doing it well in a number of instances.

Mr. Macdonald (Rosedale): I am sure you are familiar with the study of—I presume your friend—Professor John Young for the Gordon Commission some 10 years ago. One of his comments was that if we are going to continue this procedure we should operate by way of subsidy to the industry, and industries in particular, and not have tariffs at all. What would your comment be on that? At least you would know how much you are paying for it anyway, which you do not really know with tariffs.

Dr. English: This emerges from a reference to first principles in economics, and I think it is easy to defend along these lines. I am not picking on an industry, but let us say it is a line of textiles or a necessity of that character. If you put a tariff, or sales tax for that matter, on a type of goods then it is going to hit hardest the people who can least afford to pay—the lower income people—because a higher percentage of their income is spent on necessities of that kind.

So, in effect, you are protecting an industry at the expense of those who can least afford to pay it; whereas if you pay a subsidy to the same industry to enable to survive then, of course, because our tax revenues are obtained more equitably than the sales tax it would mean that the support of that industry is achieved more out of payments from higher income groups who can afford better to help support that industry if the nation considers it is in its interest to do so.

So I think the basic position on subsidy is that if you are going to protect it is better on several counts: first, it is more equitable as I just tried to outline and second, it is also a little more visible and people know what they are paying and Parliament can decide perhaps a little more readily whether it wants to continue that payment as a result, of course, of the pressures that come from the consumer public.

Mr. Macdonald (Rosedale): I take from your comments about the deeper cuts being made on industrial products—that is to say, products ultimately going to industrial manufacture rather than in consumer products—an implied criticism of, shall we say, the Canadian strategy on the Kennedy Round in the sense that we were not prepared to give up deep enough cuts in the consumer area.

Dr. English: I think, in part, that is true. I think the position taken on final products was a very cautious one.

This argument becomes rather complex, so I will try to keep it simple in the first round. It seems to me that the Canadian economy was, as the government stated, in a somewhat unique position in the world because we were one of the few countries that would have had to adjust most to 50 per cent cuts—the general linear cut being promised and proposed by the United States. It was as a result of the problems of adjustment that 50 per cent cuts were believed to involve that the government sought and obtained, I believe, a special treatment.

● 1615

Unhappily, and this has often been stated, I think, by some of the same people who supported the special position, including myself, we should have gone for perhaps bigger cuts, but we could only have been willing to offer those if other countries had been prepared to offer much bigger cuts than the Trade Expansion Act permitted after the dominant supplier authority no longer could be used in the way originally hoped. I appreciate this is a fairly complicated argument, but what I am really saying is that there are an awful lot of people in the study of this aspect of economics and in industry who would be quite prepared to see their industries go to free trade, but who are not happy about 50 per cent cuts because under the free trade they feel they would be put on an equitable basis, vis-à-vis the industries of other countries. However, with 50 per cent cuts they would have a higher tax to bear than the industries of those other countries and would not be able to make the full adjustment. On this point, I think one of our great troubles in Canada is that we have viewed this subject in a rather doctrinaire fashion.

I am fond of saying, at times like this, that if I could discover the basic flaw in the theory of Ricardo and the subsequent economists who argued for the advantages of free trade, I would be delighted because I could make a name in my profession. It is not out of any doctrinaire view that I take the position I am taking. I think it is practical politics and economics for the Canadian economy, now and in the near future really to contemplate a move to substantial free trade by some or other route. That, of course, is the problem of policy which goes beyond the terms of reference of this Committee at this time.

Mr. Macdonald (Rosedale): Well, maybe not. It can be read back into the policy that had been evolved prior to the Kennedy

Round. I would like, if I could, to distinguish the cases of cuts in producer imports as opposed to cuts in consumer imports. It seems to me—I would appreciate it if you would correct me if I am wrong in this—that with the goods that are to go into the process of manufacture in Canada by cutting the barrier of them coming into Canada, you lower manufacturing costs, and to that degree while, of course, you may produce dislocation in certain Canadian industries, such as, machinery which may have been supplying Canadian manufacturers for consumer purposes, you, at least, should theoretically, bring the consumer price down for Canada, you should equally bring your export price down so that you can sell into a larger market. You would then wind up with a cost of having perhaps imperilled a Canadian industry, but you are in a more competitive position with the finished product to get into the foreign market. It seems to me with the consumer goods, on the other hand, if you make very substantial cuts, you will, of course, get reduction in consumer prices, but just because you may well have put Canadian industries out of business, you will not have any assurance of better access to foreign markets.

Dr. English: Of course, other countries are making cuts at the same time, so you have some better access than that.

Mr. Macdonald (Rosedale): Except, as you have acknowledged, they were not going to make the kind of cuts that we could do. In other words, there was an argument in favour of the industrial products because, at least, we could have the additional advantage of making our industry more competitive on an export basis.

Dr. English: I agree that to some extent this is true. You reduce the amount of adjustment required and you get some benefits out of it in terms of maybe lower prices to the consumer. You certainly should have those benefits.

There has been a rather hopeful view expressed that these industries would take advantage of the lower American and other foreign tariffs. I think there is some evidence from the history of Canadian tariff and industry reaction to it that unless you put pressure on through the reduction of Canadian tariffs—I do not mean just the tariffs but effective protection—you do not get them responding as fully as you had hoped in the direction of exploiting export opportunities. I think

there has been too little emphasis put on this. The reason is quite obvious from the point of view of the business man. Why should he respond if he does not have to, and if the domestic market situation is favourable. As long as the effective protection is kept the same, the domestic market position is not unfavourable.

• 1620

Mr. Macdonald (Rosedale): The early prospect of the gallows concentrates a man's mind wonderfully. It is the same principle, is it not? That is fine. Thank you, Mr. Chairman.

Mr. Lambert: I was interested in your subsidies theory, but it seems to me that there is something further that is implicit in it all, in that, if government is going to pay subsidy, government is going to insist on controlling production. This is inherent in subsidy. I doubt very much that government would pay subsidy blithely without control on production.

Dr. English: I am aware, at least, of some instances where there does not appear to be too much public control of production, the gold mines, for example, and yet there is a subsidy there. Does the government control production of the gold mines?

Mr. Lambert: It is an incentives subsidy in order to produce as much, but in the case of foodstuffs and some other things, I think you would find, perhaps, in trying to cure one ill you would be creating two others. I say that this is a complication. Without going into all the ramifications of a subsidy program in lieu of tariff protection, I think this would be a substantial complication.

Dr. English: I think a subsidy is something that by its nature is difficult to maintain over a long period of time. Of course, that is one of the advantages when it comes to the original purpose of protection which was to provide, in most arguments, infant industries' support, while an industry is growing up. The problem is that unless the protection is dismantled, the industry never does admit to being grown up.

Mr. Lambert: A further point, of course, is that in negotiations such as the Kennedy Round there is a reciprocity of benefit between trading partners. It is all right if Canada were to consider a subsidy program, but if the other people do not go into a similar type of program, then you are for it. I doubt very much that you could get that

reciprocity of benefit if you entered into a unilateral subsidy program.

Dr. English: One of the issues that has recently been raised by some of the government experts on this question is when we are going to start negotiating subsidies because there are subsidies, of course, now, in a number of areas. Some countries use them much more than others. What you are implying is that it might be more difficult to negotiate a subsidy than a tariff. I think that, now, the major countries, the United States and the EEC, have reduced their tariff levels over wide sectors to between 5 and 10 per cent. They are going to start looking around for the non-tariff barriers including subsidies and start insisting that these be included in future trade negotiations. If this takes place, I am not so sure that the concern you have about the difference between the two would necessarily be important.

Mr. Lambert: I would point out, though, in so far as EEC is concerned, that while they may have made mutual reductions of tariff within the confines of the member nations there has been a compensation by increasing the level of tariffs vis-à-vis the rest of the world. What you have had, in effect, is an expansion of the geographical trading areas, but you still have maintained a protective barrier. They have maintained a protective barrier and in some instances the tariff walls are so high you barely can see over them.

Dr. English: I am often a critic of the EEC, Mr. Lambert, but I must say that in the Kennedy Round, to the surprise of some of us, they went quite far and their external tariff is not nearly as high as ours, on the average.

Mr. Lambert: That I grant you because there was also some reciprocity vis-à-vis the rest of the world...

Dr. English: Yes.

Mr. Lambert: ... they were able to do it that way.

Moving on, then, to the question of the impact of the results of the Kennedy Round on what you would call purely consumer goods as against producer goods. It seems to me that in the consumer goods' field so much is represented by foodstuffs and we know that no one—none of the members who entered into the Kennedy Round negotiations—did too much about giving away protection vis-à-vis foodstuffs. This is a private preserve and, therefore, this may be one of

the reasons, one of the reasons, I emphasize, why perhaps there has not been the result for which you were looking.

• 1625

As a clear example, we will show the effect of what can happen to a food producing industry in Canada. It is not necessarily the result of the reduction of tariffs that this has happened, but I think the results are the same, and that is in the fruit processing industry. Recently we have had briefs from this industry which indicate reasons why, in the past couple of years, for instance, the price of fresh fruits—fresh tree fruits, particularly, peaches and pears—have gone up so high, and it is frankly that, orchards are being phased out. The bulk of the fruit crop has to be processed; a certain amount has to be sold fresh, but only a small proportion. The Canadian fruit processors are just not able to meet intensive foreign competition, most of which is subsidized. Because the orchards are being phased out and fruit cannot be processed and sold and fresh fruits are not being produced the fresh fruit prices have gone up. I would suggest to you the effect is the same in industries of this kind, that if you reduce the tariff protection to zero, and therefore you are not able to protect the domestic processing you also increase the price of the fresh product.

Dr. English: I must confess to being a little bewildered by this because, presumably, if there is a motive—and there would be in the rising price of the fresh product—for increased production, that production could occur either domestically or on the part of the foreign producers, and we would be supplied ultimately with food at roughly the same prices. It seems to me inherent in the situation that the price of fresh fruit has to go up, that is all I can say.

Mr. Lambert: Well, it is, because if you are going to have so many fewer orchards the fixed costs with regard to production and the distribution costs of fresh fruit go up. Now, I would suggest as perhaps an area at which the Consumers' Association might look is the increasing cost in fresh tree fruits, and the effect of foreign competition on the processed fruits, to the point where Canadian supermarkets are now actually having their own labels, or they are even having their packs, processed in Australia.

Dr. English: The difficulty with an assessment of the impact of various forms of protection on agricultural products relates partly to the fact that prices in agricultural products

fluctuate more widely anyway, and I think it is difficult to relate historical evidence of a price rise to a particular protection or act on the removal of that protection until you have looked at the other factors that may be as a result causing the shift in supply. But my main point is this. Let us assume that you are talking about a kind of fruit that we would now obtain from the United States instead of growing in Canada. Let us assume that, and that the Canadian fresh fruit production went down, and we started getting it from the United States. It seems to me, in the first place, that the United States, being very much bigger, would not have to expand its fruit production by very much to supply our market, and it seems to me also, at least questionable whether the effect of that expansion would involve a rise in price of fresh fruit.

● 1630

Now, if you are talking about what happens within the Canadian economy, of course there may be a reduction in production, but this does not necessarily mean that we have to pay more for the imported fruit; in fact, the complaint that the industry places before us so often is that the American fruit is cheaper. I am puzzled by the situation.

Mr. More (Regina City): With this argument, would it not be true of almost anything; that the United States being so large would have to have very little expansion in any field to provide Canada with all its needs. Then what do we do for a living? How do we pay our economists?

Dr. English: Well, now, I think you are then making a generalization that does not make reference to the comparative advantages of the two countries. I am sure that we do not give up all fresh fruit even if we have to compete with the United States, because there are some areas in which we can do, at least for some part of the year, a competitive job. But the important point about the whole picture is, of course, what are our comparative advantages, and what are theirs? And it is quite clear that under free trade which exists now, we are exporting things to the United States in many lines of production.

Mr. More (Regina City): Perhaps it does give us an opening in particular seasons.

Dr. English: No, I do not mean in fruit; I mean in other product lines. The analysis of the supply situation in North America in

fresh fruit is something which I have not done, and I would certainly think it is well worth doing. I am merely raising questions about the points made.

Mr. Lamberti: Well, my last question is this, I think that the fruit-growing and fruit-processing industries are a classic example of regional impact. We know it for fruit growing but what are the alternative uses for, say, the Okanagan Valley? I find it a little difficult to see where you could turn that, in the immediate and in the foreseeable future; that you could say, well, all right, we are going to phase out the peach orchards of the Okanagan, and also the fruit growing areas of the Niagara Peninsula. This is one of the dangers that you do face. I show it as an example of some of the difficulties that you run into.

Mr. More (Regina City): A good place to build a home when you retire.

Dr. English: I wonder if I could take that question under advisement, because there are people upon whom I could call to make a more intelligent comment about the specifics of fruit supply than I can make.

Mr. More (Regina City): Dr. English, just one thought occurs to me and I do not know whether it is even sensible; but on the basis of your argument, do you think it would be viable for Canada's development to move to subsidies when there is no reciprocation from countries to which we export? If they maintain tariffs; it would not be viable for us to adopt a system of subsidies, would it?

Dr. English: I think the position I would take is that we need much less of both—of either—than we have had in the past, and the question was raised whether a subsidy is more efficient than a tariff. I think on the basis of economic principles it is but I do not think that a government today should decide on that issue until it is decided how much protection we need in Canada, and once that question is resolved, I think the other issue is a very minor one, because I do not believe that the amount of protection we need is comparable to what we have had in the past, or indeed have now. I believe this is being recognized by more and more people all the time. You have political leaders in the Province of Ontario—I do not mean federal political leaders, but provincial ones—who are making this statement on the basis of their experience, not only as politicians, but as businessmen, and I think this is significant; this did not use to happen.

The Chairman: Of course they do not have to follow through on it.

Dr. English: Well, I would have confidence in their sincerity on this particular point, because they have no very particular reason for saying it, unless they think there is an interest in the Province of Ontario in hearing that said.

The Chairman: Actually, we have Mr. Cameron's name next on our list.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I had another comment on the fruit angle which it seems to me Professor English did not take into account. Mr. Lambert touched on it briefly, the difference in maturing dates of fruit and vegetable produce. It has a very disastrous effect on much vegetable and fruit production in my own province of British Columbia. Of course, they do mature much earlier; they come in at the time when our own producers are not yet in the market, and the situation is complicated also by the fact that much of the food distribution is in the hands of international corporations who have, as part of their operations fruit-producing units in the United States, the large corporate farms of California, Oregon and Washington. They funnel their own produce into the retail market here sometimes I have had some cases of this even at higher prices than the local produce is available for. It is part of the corporate policy to do this, which is another angle to the question of what protection we need and what protection we do not need.

Dr. English: I am glad you brought that up because it is certainly true that the difference in growing seasons affects the pattern of imports and of course, our protection has been seasonal too in response to that need for some products. Of course their ability to charge a higher price in Canada very often relates to our tariff. Otherwise other people could buy at wholesale in the United States and compete with them, but that is an incidental point.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I do not imagine there is very much competition in some instances.

Dr. English: But there is, I think, room for the small wholesaler in food distribution. There is quite a bit of it goes on, and I think more of this could go on across international boundaries if you did not have the trade barriers.

Mr. Cameron (Nanaimo-Cowichan-The Islands): There are not very many small fruit wholesalers left in the Province of British Columbia. It is now in the hands of about two firms.

The Chairman: Mr. More do you have further questions? Mr. Lind?

Mr. Lind: On this question of subsidies. I would like to ask Dr. English a question. Dr. Deutsch, in his statement a little while ago claimed that the government had no right to be subsidizing manufactured milk in Canada. We subsidized some 99,500,000 hundred-weight of manufactured milk at the rate of \$1.21 per hundred pounds. What are your views on this subsidy?

Dr. English: Again may I say that on our economic policy committee we have someone who would be far more expert on this question than I, David McFarlane, whom I could call upon to deal with your question with the seriousness and depth that it should be. I think the question that we would ask as a consumers' association is, why is there a need for the subsidy in milk? Is there a concern about international competition, or is it a question of the problems of choice of use of dairy products?

I know one of the views that has been expressed by agricultural economists in this area, is that the Canadian industry does have a comparative advantage in the production of cheese, and it has not, to date, put the emphasis upon that line of activity which its comparative advantage would warrant.

Of course the reason that it has not been able to, is partly because you cannot export the cheese. There is an American quota on this. This, of course, introduces the possibility that one might bargain that quota down and get access to that market for something we can do well in exchange for abandoning some of the activities or uses of dairy products by the Canadian industry which we are not able to perform as efficiently.

Even within an industry like that, you can identify activities in which we have a comparative advantage by the assessment of the people working on it, and yet we do not exploit that because we are unwilling to negotiate the trade policy changes that might help us to benefit.

Mr. Lind: Dr. English, concerning the product that you mentioned, we subsidize the milk that goes into the making of cheese, and

we all subsidize the cheese on export to enter the foreign market, or the United States and probably the British market at the present time.

Dr. English: The judgment I am referring to is one that we would not need to do if we were able to specialize in that area. That is not my judgment, I am quoting someone else in that respect.

• 1640

[Translation]

Mr. Chairman: Mr. Clermont, a supplementary question?

Mr. Clermont: Again concerning dairy products, let us take, for example, butter. I believe...

Mr. Chairman: Do you have the translation? Are you able to follow?

Mr. Clermont: Thank you, Mr. Chairman. I believe that last week, Mr. Barry, Chairman of the Canadian Dairy Commission, in an address to the representatives of the Agricultural Industry in the Prairie provinces, told them that Canada could import butter for less than 30 cents a pound. And, as you all know, the Canadian Dairy Commission guarantees the dairy producers of Canada a price of 63 cents a pound. In this case, could your remarks concerning cheese be applied?

[English]

Dr. English: Well the view that I have heard expressed by people who I would regard as experts on the economics of this industry, is that we are not competitive in butter but that we are in cheddar cheese. There is the question of how the industry organizes its production. Of course, within the present set of protective circumstances affecting both Canadian and foreign protection, we do not specialize. This is the judgment about the potential for that industry if a judgment were possible and if the trade policies were changed.

Mr. Lind: I have one further question on the butter issue. The butter sells for over 90 cents in the United States, whereas here in Canada it is selling in the sixties. What would happen if we made it a free entry each way? Would our butter go up to 90 cents the same as theirs, or would it meet some place in between.

Dr. English: You are making an assumption, of course, about one change where quite

a number of changes might be involved in that process. For example, I think, looking at agricultural protection in the next few years, I think it should be said that the American government and American opinion is swinging away from the degree of protectionism in agriculture that they have practised over the last twenty or thirty years. It will not happen overnight. But there is a swing away from this, because it has been discovered that a lot of American agriculture could, under much less public intervention, do quite well. The circumstances in the next few years regarding agricultural policies may alter significantly in the direction of less public intervention.

Under those circumstances, I do not know what will happen to the price of butter and I think you have every right to get an answer to that question, but I would not want to venture one on the basis of no expertise in that area at all. The only things I purported on were judgments of people who have some expertise in this area. They would probably think it unlikely that we would become a major supplier of butter to the United States market, I am sure.

Mr. Lind: Not so much on that angle, Mr. Chairman, but we were advised by our Canadian government economists that the farmers of our area need this subsidy or this protection in order to produce economically. Do we let this facet of our industry drop or do we continue to subsidize? Dr. Deutsch said that he thought we were doing wrong. As an economist what is your opinion of this? I thought maybe all you economists were together in your opinions.

The Chairman: No more than the politicians; even less.

Dr. English: I think the economists who do empirical work on the question of dairy and agricultural industry economics probably will come fairly close together, and if we appear to be apart it is because people who are inexperienced like myself in this field, venture opinions when they should not.

I do not propose to do that, but I will promise you this: we have done a study of the comparative advantages in Canadian agriculture in connection with the work of the private planning association by one of our leading agricultural economists at Guelph University. In fact we have two studies, one by him and one by Dr. MacFarlane and these will be available in the near future and I will

be happy to let you see them and we can go on on the basis of a much better empirical foundation than I can today.

Mr. Lind: Does it not boil down, professor English, to this point: it depends from where you start and from what viewpoint you start whether we should pay subsidies or not. If we are looking at it from the agriculturists point of view we are looking at it one way; if we look at it from the consumer's point of view we are looking at the other way.

Dr. English: From the consumer's point of view the lowest price of food that is possible on a continuing basis—now I think this is an important point. If you talk about getting a low price today and paying for it tomorrow, this of course is a point that the consumer can understand is not in his interest. But if the economy of the agricultural sector can be so arranged that a continuing flow of low priced food is made possible—the lowest price—then, of course, the consumers' interest is clearly served.

On the question of what other viewpoints one should follow, the Canadian agriculture is far less subsidized than that of most other countries in the world. I think this is something I want to be explicit about.

The Chairman: Eugene Whelan says that all the time.

Mr. More (Regina City): It is not true. Dr. English, that in the EEC their agricultural tariffs are based on protection of the French agricultural industry, and that was one of the great stumbling blocks before they finally reached agreement? France insisted that this industry had to be strongly protected.

Dr. English: Actually, the French agricultural industry is one of the stronger ones in the community. What they wanted was protection of the whole six so that they could become the suppliers of two or three of the others.

Mr. More (Regina City): But is not their external tariff structure also based on keeping that?

Dr. English: Oh, yes. They wanted enough protection on the outside so that French agriculture would supply Germany, Italy and Britain, so they would not have to compete with the really more efficient producers of many agricultural products in North America.

Mr. More (Regina City): Is this one of the problems for Canada keeping her industry

viable? Take milk, as I understand it we had an over production of just 2 per cent under policy, but it was disastrous for the industry and its effect on prices when we had a subsidization program and we got into this over production. I think I saw figures that showed it was only 2 per cent, and yet it ruined producers.

Dr. English: I think, though, that one must make quite a sharp distinction between the product which we can and should be exporting in agriculture. In those products we have a very legitimate complaint in wheat and rapeseed and these things. We have a very legitimate complaint against all the agricultural protectionism of other countries.

The Chairman: Do we not have our own agricultural protectionism when it comes to wheat in Canada? We were told yesterday...

Dr. English: It is very modest in comparison with what is practised in other major countries. I think that is the only fair answer to that. Indeed, if we did not have perhaps a modicum of intervention in the wheat market we do have a comparative advantage and we would be depressing it merely because we were accepting, or forced to accept, protectionism of other countries.

So I think you can perhaps justify a sudden intervention on behalf of the wheat industry so long as it is not very much. In the case of industries where we do not have a comparative advantage it is difficult to justify it at all except in so far as you may hope that by negotiations—let us say with respect to dairy products—one might achieve the benefits of a comparative advantage as we have in one part of that industry before we give up the protection which exists on the other sector of the industry or on the other products of the industry.

• 1650

Mr. More (Regina City): Well is it not important to the consumer to have a continuing supply of fresh milk? Would you not say so? Can you guarantee this without the aid that is going to the industry?

Dr. English: The continuity of supply of any product is not necessarily reduced by having to depend upon imports. I think you have to be much more specific in this argument. You can get very good and continuous supplies of transistor radios from Japan. The continuity of supply may on occasion be affected by the fact that something is impor-

ted, but there are just as many reasons why on occasion the flow of supply from domestic producers may be cut off. You may have a major strike in the domestic concern which will cut off supplies from the domestic producer, and yet foreign supplies may be available. Continuity of supplies really does not relate...

Mr. More (Regina City): You are getting into the area of manufactured goods rather than food goods. It seems to me it is a different problem; for instance, the effects on the dairy industry. As I say, it is my conclusion that the consumer wants a continuing supply of, say, fresh milk, and you cannot guarantee that without your own industry, as I understand it, and the industry cannot operate profitably at present consumer prices without government intervention.

Dr. English: Again I would raise the question about fresh milk; it is for the most part a regional or local industry, and therefore I do not think international trade in fresh milk is very important. I do not think it is really relevant to our case because you do not ship much fresh milk across international boundaries.

Mr. More (Regina City): This is the point I was making. It is part of the dairy industry, a major part of the supply; then you have the by-products, cheese and so on, that come from the same industry, and you keep one and it affects the viability of the other products.

Dr. English: The question I would raise though is, can not the dairy industry depend primarily upon fresh milk and cheese? That is the question.

Mr. More (Regina City): It comes out of the answer.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Dr. English, I wonder whether your Association has done any research into the proportion of the consumer dollar that is spent on food today and, say, 15 or 20 years ago? Has there been any shift? I have heard it suggested that the proportion spent on food has been declining in relation to other purchases.

Dr. English: This would be expected because a rise in the standard of living tends to produce this effect. We think of more non-food ways of spending our income.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I wonder whether there is not a case

to be made for the consumer being prepared to pay a larger part of his income for food than he has been doing in recent years, because most consumers seem to be prepared to pay exorbitant prices for television sets and so on, but they scream like mad—I was going to say like hell—when the price of milk goes up or the price of bread goes up.

I wonder, in approaching it from the point of view purely of getting low food prices, whether it is economically sound to take that position rather than take the whole gamut of purchases and what proportion should be devoted to food production, and to what extent the economy and society as a whole should make sure that those who are producing the food are recompensed adequately for their services?

Dr. English: This is a question, of course, very far beyond trade policy as I am sure you appreciate, because I think we would be making a misleading statement to imply that trade policy has that major effect on the price of food. Therefore, you are suggesting that in the domestic economy we should see to it that the price of food should be raised relative to other prices in order to...

Mr. Cameron (Nanaimo-Cowichan-The Islands): Or other prices go down relative to food.

Dr. English: Well, you see the consumers' position is that all prices should be as low as competition can make them, and efficiency through competition can achieve. I do not see why we need to bargain between the two sectors here.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Except that one is essential to human life and the others are not and the maintenance of the industry that produces food is absolutely essential, whereas we could get along all right if we were not producing any television sets or transistor radios for awhile.

• 1655

Mr. More (Regina City): We could go back to a primitive society.

Mr. Cameron (Nanaimo-Cowichan-The Islands): No, not necessarily back to the primitive society; but make sure there is enough food to eat.

Dr. English: The economic motive to produce either food or any other commodity cheaply is present in our kind of economy

and I would not think it would be necessary to manipulate the price of food to get an adequate food supply.

I have just come back from India and interestingly enough the same argument was being applied there but, of course, for a much different reason. The price of food has been held down for the sake of problems of famine, and the effect has been to reduce the supply. The Indian economists are arguing that it ought to be raised to more market-oriented levels in order to induce a larger supply of food. Now, if you could say that increasing the price induces a larger supply and you can dispose of the supply, as they certainly can in India, then of course that is another part of the argument. If, we want to raise our supplies in order to provide more for some other country and we think this is the best way of providing aid, which I think I could question, but if we do think that, then that is one kind of argument. But, to say that we need a larger supply of food for Canadians is something which the Canadian consumer himself might question because I think he looks pretty well fed.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Mr. More was pointing out that you do need a continuing supply that is pretty well within our own control.

The Chairman: Well, before I recognize Mr. Clermont, if you have finished your questions, I think I should deal with a procedural matter.

You may recall that when the Canadian Manufacturers' Association submitted their brief, they said that they were not, as I recall their letter of transmittal specifically requesting the right to appear in support of their brief but they would be happy to do so if we thought it would be helpful. Now, we agreed that we would distribute the brief a little earlier than we might otherwise have done so that I could hear from the Committee whether we should ask them to be present. They suggested February 15; I expressed the view that that was really too late in view of the obligation to give the House an opportunity to deal with this before possible prorogation and I had suggested a date no later than February 5. Perhaps before we continue our discussion—a very interesting discussion—in view of the fact that some members might have to go on to other commitments I wonder if I could have an expression of views at this time.

The CMA brief is quite complete. Certainly we do not want to inhibit or prevent this group from giving us the benefit of their further views, but I just thought I would ask for an expression of opinion at this time.

Mr. More (Regina City): Mr. Chairman, have they indicated that they could appear by February 5 if we requested?

The Chairman: I am informed by the Clerk that it is her impression they could appear. In fact I see a representative of the Association in the audience, and he is shaking his head affirmatively.

Mr. D. H. Jupp (Honourable Representative of the Canadian Manufacturers' Association): I think that February 5th is perfectly all right.

The Chairman: Well, I think I should inform the Committee that the Clerk has resolved the problem of accommodation. We will be meeting in the Railway Committee Room so that certainly if we want to hear from the Association we can and I personally feel it could be helpful. . .

Mr. More (Regina City): I was going to suggest that it would be better to have them available just in case if it is convenient for them rather than to take the brief and then find we want them and have to ask them to make arrangements.

The Chairman: That is right. I assume we are in agreement then and we will invite them to appear on the 5th of February. Pardon me Doctor English for getting this matter out of the way.

• 1655

[Translation]

Now, I would ask Mr. Clermont to take the floor.

Mr. Clermont: Dr. English, in your comments you mentioned that according to some information you have, it was believed that in the United States, at least we were under the impression that the government had a tendency to intervene less in the agricultural field. Does this tendency seem to appear also in Canada, according to that same information you have?

[English]

Dr. English: I am not sure whether you may have understood the first remark that I made about this. The assessment of senior

analysts of agricultural policy trends in the United States is that the American Government is moving away from agricultural protectionism. I do not mean they are going to abandon it wholesale tomorrow. I am sure everybody recognizes that; but, there is a tendency for them to move away from the degree of protection in agriculture that has been practised over the last 30 years and the change of view is the result of the realization that... I think two or three things are involved; but the main thing is that they discovered that the major section of their agriculture can be as efficient as that in other parts of the world and that they are pouring too much into it and they have only subsidized a lot of people that did not need it along with those who may have, but who might well be moved into another kind of activity.

Now, the fact is the United States also has endeavoured in recent years to work against protectionism in other country's agriculture and has always had difficulty in making much of a case because they could always be told that they were doing the same sort of thing at home. I think they are beginning to wonder whether they are not losing more abroad than they are gaining at home too. These two factors are pushing the American government in the direction of a movement away from agricultural protectionism.

• 1700

Now, I would say this, as I said before, I think the level of Canadian agricultural protectionism is taking the whole Canadian picture much lower to start with. So, we cannot help but gain by an American move in this direction.

We may be called upon to re-think our own policy in respect of certain industries where we might get some advantage out of a deal with the United States.

Very able people have said, in fact Professor Ralph Campbell of Toronto has suggested for one thing that we might look at the best possibility of a free-trade arrangement in livestock and livestock products; the whole range with the United States. He knows this sector much better than I do and I think you should pursue him on the defence of it. But this is the kind of point that is made.

[Translation]

Mr. Clermont: As to dairy products, Dr. English, representatives of this sector maintain that if a certain control was not exer-

cised, let us say on the price of butter, the price of this product would then be much higher than it is today. According to the same people instead of calling this subsidy: "subsidy to the producer," it should be called: "a subsidy to the consumer." What do you think of this?

[English]

Dr. English: It is a sector in which margarine has demonstrated its capacity to serve as an acceptable substitute. I find it very difficult to specify a subsidy in either direction, in butter. But this is a compelling factor, is it not? I mean if you try to subsidize the price; you raise the price by whatever you do, then you are going to get the competition of margarine. If you reduce the price in order to meet that competition and subsidize the consumer, then you are encouraging an industry or a sector even of the dairy products industry, that may be its weakest sector. Either way it just does not seem to me to make sense either from the point of view of the consumer, which in this case is very clear, or from the point of view of the economist who is trying to balance the benefits to the economy as a whole. I do not think it has been demonstrated that there is any essential requirement for the butter production in a big way in Canada. There are opportunities for that industry to specialize in other directions. Now, of course further study may produce different results but all the analyses I have seen have argued in that direction; that we have a comparative advantage in cheese and we can of course produce fluid milk because fluid milk is a local market product.

Now, if you combined those two and other local market products like ice cream and this sort of thing you have a lot of activity for an industry, without heavy subsidies which tend to divert that industry's products into two or three lines of activity in which it is not as competitive. This does need careful examination. I think it is an examination that only in respect of the cheese question and the butter question would have anything to do with international trade. We should not over-emphasize it in the context of the discussion of trade, I feel, but it does, of course, relate to trading questions in that area.

The New Zealanders who are one of our trading partners, are very efficient but are producers, for reasons that relate to the nature of their agricultural economy. They are in a much tougher position than we are, because the world is protecting agriculture

and butter everywhere and they are having great difficulty in fitting into that kind of world.

[Translation]

Mr. Clermont: You speak of production in New Zealand. Do you not think that the climate of New Zealand helps them to keep their cost of production lower than that of Canada's?

[English]

Dr. English: Certainly.

The Chairman: Are there further questions at this time?

Perhaps I might ask Dr. English one or two.

It seems to be implicit in your statement, Doctor English that you would approve of the new consumer affairs department's being represented on any interdepartmental committees that would be formulating policy on future tariff negotiations?

Dr. English: Very heartily; I think it is very important. We recognized at an early stage that not all the interest of the consumer could be put into that department. It was quite clear that the tariff had to remain the responsibility of the Department of Finance because of its very nature. Therefore, the way to handle our interest in that matter is through an interdepartmental committee.

The Chairman: It seems to me Doctor, on review—although I must say you softened this impression somewhat in your comments—that the brief makes too great a distinction between the producer and the consumer as though somehow or other they are two separate groups. Is your Association paying enough attention to something very basic for consumers, which is that unless they are able to exercise effective demand their position really does not mean too much. If, through lack of proper phasing of tariff changes, or proper adjustment systems, or the lack of proper attention to the actual facts of existence of an industry, steps are taken which, in effect, destroy the purchasing power of large numbers of people connected with this industry, then as consumers they are hurt.

Dr. English: I have no disagreement with that at all. However, the point I made at the beginning was that we are moving into a phase of Canadian economic development where, by the record, looking at the trade statistics and at what has been happening, the manufacturing sector is contributing a larger and larger share of Canadian exports. It can

do even more, the more opportunities it gets. My main point is that we no longer need to consider that a fundamental conflict exists between consumer and industry; or, for that matter, between primary and secondary industry. Very often their views on trade policy have differed in the past, but within most of our major industries there are strong, internationally competitive sectors. What happened in the steel industry in the late 50's was one of the most important symbols of the change in Canadian competitive potential. We still have some distance to go, but we, as consumers, are very much in favour of appropriate adjustments, assistance arrangements, and an appropriate time period during which this adjustment can take place.

I would add, that unless we have a clear goal in the area of commercial policy the problem of adjustment to what becomes a rather bewildering one. This has been the problem up to date. We have not had a very clear goal in where we are going in the trade policy area.

Mr. More (Regina City): Is the goal not towards freer world trade? Is that not clear?

Dr. English: Sometimes something more is required. Here I think I am reflecting views that industry itself would confirm. Sometimes industry uses colourful phraseology in this connection.

• 1710

Mr. More (Regina City): I would like to get some view on this statement.

Dr. English: My illustration is this. A major manufacturing concern has commented that it does not like our kind of tariff reduction because it is like the strip-tease method: a little bit at a time. It leaves them with a good deal of uncertainty. The same industries that object to the "little bit at a time" approach have said that they could live with free trade, and a period to adjust to it, because under those circumstances they would know that they were on equal terms in the United States market; and that if they had time to adjust they could meet that challenge. This is the kind of comment you hear. The difficulty with the "little bit at a time" approach is that it leaves you with a barrier to overcome and discourages even the making of the investment decisions that will result in adjustment.

The Chairman: But you know when each of the seven veils is being removed. It happens over a certain fixed period. It does not depend on the whim of the dancer.

Dr. English: That is a good question.

Mr. Macdonald (Rosedale): I would suggest, Mr. Chairman, that the analogy fails because it is the element of uncertainty that makes the whole process so exciting.

I am merely posing that. I am not purporting to be an expert on the psychology of strip-tease.

Mr. More (Regina City): Mr. Chairman, one of the industries affected has already indicated that it objects to having two veils taken off at the initial stage.

Dr. English: Perhaps what they are objecting to is the choice...

The Chairman: I guess the analogy can only go so far.

If I may continue, just briefly, it seems to me, then, in a sense, that one could turn one of the contentions in the brief right around. That is the one which states that because it appeared that the tariff changes did not apply on finished goods as severely as some might have hoped then to that extent the consumer interest was not given the attention it might have received. It seems to me one can turn this around and say that to the extent that the tariff changes agreed to by Canada actually maintain this degree of protection, then at least in the short run our tariff negotiators were protecting the interests of the producers involved as consumers, because over that short run period they are maintaining their purchasing power.

Dr. English: Of course, whether you maintain purchasing power is really...

The Chairman: I mean they are working and they are being paid; they can buy something with the proceeds.

Dr. English: Yes; but there are many ways of maintaining purchasing power. You can maintain purchasing power, either by maintaining industry that is operating efficiently or by helping industry to adapt so that it can earn a great deal more by export and by operating more efficiently. You can get good purchasing power out of a different mix of industry.

The assumption should certainly not be made at this stage in our economic development that the only way to maintain Canadian employment is through tariff protection. One is an aggregate of assertion and the other is a question of how you go about it and what you do.

The Chairman: I am not asserting that. I am merely suggesting that it is equally dangerous to contemplate, at this stage, a more widely sweeping reduction as being beneficial to the consumer.

Dr. English: You might argue that it would be more beneficial to industry than going only part way. I do not think we have gone far enough for the experience of the Kennedy Round to cause a great deal of disruption at all, especially when you consider that the reductions are going to take place over several years.

The Chairman: This is the evidence we have heard from the official side so far.

This leads me to the next point I wish to ask you about. A problem I see, not only in the brief but in many comments made by academic economists generally—and to some extent I exclude you because you have been more reticent in expressing yourself, at least at this gathering—is that there is a shying away from dealing with specifics. We deal with specifics. We stand at factory gates and see thousands walk in to work. We see them come out and go with their families to shop. Before we act on some of these broad generalizations made by academic economists I think we have an obligation to these millions of specifics on exactly what is going to happen to them while they are still with us.

• 1715

Dr. English: Of course, the problem of unemployment which is the one that you referred to...

The Chairman: Not only unemployment; there is under-employment, or partial employment.

Dr. English: You can also be partially employed by not doing the kind of job which will earn you the highest income. This is the point I am really making. It is unemployment as such. Stark unemployment is clearly a more serious social problem than getting along with a lower income than you might possibly enjoy. I am sure that no person with a social conscience, in the economics profession, or outside it, would not recognize unemployment, except that kind which usually is called frictional unemployment, which has always existed, involving 2 or 3 per cent in a dynamic economy, which cannot really be avoided and which you allow for with unemployment insurance. But apart from that small margin, the general unemployment

problem which arose in this country in the late 50's and early 60's is a problem which economists—at least most of them I know—will always put as a top priority problem. We criticized the government at that time because we did not think enough was being done about that.

You see, the distinction we would normally make between that problem and the problem of appropriate use of commercial policy is that it is not necessary to create unemployment to improve the efficiency of the economy if you combine commercial policy with the right kind of adjustment policy. You should not postpone taking action to improve the efficiency of the economy just because you cannot provide the right kind of transitional policy. I think we tend to shy away sometimes from moves in commercial policy area, because we are afraid we cannot sustain employment. It seems to me it is unnecessary to take that pessimistic view of public policy.

Mr. More (Regina City): Mr. English, is there any cleavage between the Consumers Association and the industrial worker? What I am getting at is, does the industrial worker support membership in the Consumers Association? Does the Association have any figures to indicate that workers in the industrial sector are by and large supporters of the Association and its objectives?

Dr. English: I will give you one statistic that I do know about the American Consumers Union because it was told to me last year. The average income of membership in the American Consumers Union is something like \$13,000.

Mr. More (Regina City): That does not answer my question.

Dr. English: I think it answers it to this extent. The tendency in any formal organization is for it to appeal primarily to professional people and this is too bad. We have made efforts to bring in more labour membership and, in fact, we are trying certain new techniques right now. There is a good deal of harmony in our views.

Mr. More (Regina City): There have been occasions when the wife of a man who earns \$50,000 is the leading light in a consumers association. She wants lower prices for everything, but her husband's income.

Dr. English: He may deserve \$50,000, you know.

Mr. More (Regina City): I do not want to get into that side of the argument.

The Chairman: I think it is true that certainly organized labour is becoming more and more interested in consumer protection and things in that area. I know in my own city of Windsor we have quite an active branch of your association. If I may make a declaration of interest at this time. I think I am a member of your association myself.

Mr. More (Regina City): So am I.

The Chairman: I think a number of us are.

Mr. More (Regina City): But I wondered if industrial workers and their families, generally, were members of the Consumers Association?

Miss Frances Janzen (Executive Secretary, Consumers' Association of Canada): I would like to say that while we may not have the membership we would want of these people our groups do hold consumer clinics and so on. Very often this type of person will attend and in this way we give them consumer information, even though they do not support us.

Mr. More (Regina City): They do not have active membership.

The Chairman: Mr. Macdonald is next, followed by Mr. Lind.

Mr. Macdonald (Rosedale): Going back to the question of trade strategy again, could I ask Dr. English what he would say to a unilateral reduction of tariffs on producer items by Canada?

Dr. English: Producer items?

Mr. Macdonald (Rosedale): Yes, items going into production.

• 1720

Dr. English: Personally, I would favour attempting, first, to use these items in our tariff as a basis for negotiating United States and other countries tariffs down on the same items, because I know from personal experience in the machinery industry people who would like to be able to produce—these are foreign controlled firms that have plants in both countries—some items in Canada and ship them to the States and do the reverse with other items. As long as you have that kind of rationalization opportunity—which is comparable in some respects to what has happened in automobiles—you should try to get

the tariffs down both ways. I think the unilateral reduction is only worth thinking about if we discover that it is going to be a deterrent even before we can get other people to reduce their tariffs and I do not think that has been demonstrated yet.

Mr. More (Regina City): This raises a supplementary in my mind. Dr. English, as I understand it, the authority that was given and negotiated in the United States was to eliminate some tariffs that were at the 5 per cent level that could be eliminated completely and a maximum of 50 per cent in reductions in other fields. That was the limit placed on them. In the review that we have had it has been indicated that by and large Canada in negotiation and the other countries, too, that the American tariff reductions were largely within the authority and that they were at the maximum. In your mind, do you feel that this is too slow? Do I gather from your remarks that you think the nations involved could have gone further at this time?

Dr. English: Legally, of course, the United States was bound by the Trade Expansion Act.

Mr. More (Regina City): There was no room to negotiate beyond that by other countries?

Dr. English: Because the United States could not go further, the other countries for negotiating reasons would not go further. But, of course, one or two things have to be borne in mind and this is relevant to the future, too.

When the United States brought in the Trade Expansion Act, there was an authority in it which we call the dominant supplier authority for reductions to zero on sectors of manufactured goods—indeed, I guess, it was not restricted to manufactured goods either, but that is where its impact was felt most clearly—that under this provision, for those categories of trade on which the United States and the EEC accounted for 80 per cent of world trade, the tariffs could be reduced to zero. During the time when that bill was being discussed and even at the last minute, this was expanded—the concept was expanded—in such a way that it could have been much more important. We, in Canada, failed to press the United States to maintain that expansion and, I think, that was one occasion when we might have had a very considerable influence on United States policy. I am not the only one who feels that way. We missed an opportunity to give the United States and

the President more authority with respect to tariff reductions and for that reason we were bound in by the 50 per cent, too. This was a mistake in Canadian policy in 1962. I think we should be on our toes to watch for opportunities in the future and, perhaps, to make a few by making, at appropriate moments, significant policy suggestions.

This does, I am sure, go beyond your terms of reference.

Mr. More (Regina City): It is an interesting observation and one that I had not heard before.

Dr. English: We are publishing the first three of our series on Canada and the Atlantic community which is the result of the Private Planning Association's work. In two weeks time we are having a press conference here in Ottawa and I would be glad to provide you with some of the material that comes out of that.

Mr. Macdonald (Rosedale): Is there any cohesion between your efforts and that of the staff associates in Britain, Leonard Burton and Prof. Harry Johnson and the rest of them? Is this just coincidence?

Dr. English: Well, I am not speaking now for the Consumers' Association.

Mr. Macdonald (Rosedale): But I was interested in your comment. Is this just coincidence you are doing it?

Dr. English: Our efforts began, first, and we stimulated them to take an interest in it.

The Chairman: Does Harry need stimulation?

Dr. English: On this particular subject, he got it from us, whether he needed it or not.

The Chairman: Mr. Lind.

Mr. Lind: Dr. English, I am interested in going back to this agriculture production. Would you, as an economist, advocate that we control our farm production and dairy products so that the farm economy can have wage parity with industry, such as the automobile industry.

• 1725

The Chairman: I think that is a very interesting question but, perhaps, we are straying a bit from our order of reference with respect to international commercial policy. Perhaps you mean the international automobile industry.

Mr. Lind: I know this hits home to you, but I would like to hear Professor English's views on this.

The Chairman: I just helped you relate your question to our order of reference.

Dr. English: Can I just make one comment on this? Historically in Canada the industries that have paid the highest wages have characteristically been the export industry and all I am saying is those industries could pay high wages because they were fully rationalized and efficient. It seems to me it is the wrong way to go about it to have wage parity before you have achieved productivity. I will not hesitate to say that, but then I think that most economists would say that right away. The difficulty is, of course, that very often wage parity pressures come before the productivity is being realized well for various reasons. In the case of the automobile industry it was partly because of the government assistance to that industry which put money there that they were able to go after and you cannot blame them for trying to get it. I think it is a problem of adjustment. We do have to be very careful about any artificial element in the adjustment process because it may produce a tendency to wage parity before productivity parity.

Mr. Lind: You do not think that we should put any controls on to control productivity in an agricultural sector so that we can get a higher price for these products.

Dr. English: I am not sure what kind of controls you mean. Any policy which encourages the improvement of productivity on a durable basis is a policy I would take an interest in, but if it requires continuing subsidy, then I would raise questions about it.

Mr. Lind: Why do universities put controls on the amount of graduation they do in such professions as your own economists?

The Chairman: Do they do that?

Mr. Lind: So that the economists can demand a higher wage.

Dr. English: The only controls that are exercised over our outputs in economics are the results of constraints in our budget imposed by the provincial government.

The Chairman: With reference to the automobile industry, it is a fact that the parity provisions are being staged in over three years.

Mr. More (Regina City): They have not been accepted in all portions.

The Chairman: No, and there is still some discussion going on...

Dr. English: They have been accepted by all but the one major employer. The pressures did, however, develop quite strongly and the danger is that these are related not only to the increase in productivity, but to the continuation of protection on the consumer product. This is the difficulty that was raised by that...

The Chairman: It was my understanding that the preamble to the contracts that have been successfully concluded stated clearly that it was understood that the move to parity would be based on productivity gains.

Dr. English: That is good.

The Chairman: And, furthermore, perhaps this may help stimulate management. This has often been the case.

Mr. Cameron (Nanaimo-Cowichan-The Islands): The actual paying or the danger of having to pay higher wages may stimulate management to improve its...

Dr. English: Yes, it does, but I think management must have an opportunity to improve productivity. My point is that if you produce an increase in wages in a protected industry where the opportunity for the management to adjust is not available, then management is really under an unwarranted squeeze.

The Chairman: One cannot get too far ahead of the other, I suppose.

Dr. English: That is right.

The Chairman: Do you have further questions or comments at this time?

Mr. Cameron (Nanaimo-Cowichan-The Islands): I wonder if I could just ask Dr. English a question. He mentioned earlier that he supported the idea of free trade. I agree with this. I was wondering if, in his mind when he said that, he had consciously or subconsciously the idea that that free trade would be largely with the United States? Would you agree to free trade with the United States if it was not free trade with the rest of the world?

The Chairman: Possibly in fairness to Dr. English I had better ask him whether he wants to answer on behalf of the Association or in his own personal capacity.

• 1730

Dr. English: There is no particular policy preference in the Association as regards how you move toward trade liberalization. For myself, I think that any international policy has to be taken with a view to both the economic and political implications of it. I think there are important challenges facing us in the international trade policy these days that go beyond this North American continent. The most important of these is the challenge that we are faced with by the developing countries. They are tired of receiving aid without the opportunity to benefit from the exports they can produce with their newly developing industries. I think, probably, the major opportunity that may exist within the next few years for us is to become a real member of the Western Hemisphere because those are the countries that are going to be putting the United States on the spot within the next two or three years as a result of Punta Del Este, if anything happens and that is a big "if". Nothing may happen at all.

Mr. Macdonald (Rosedale): It seems a long time since President Johnson made that statement.

Dr. English: That is right but the Latin Americans will not let him forget, I do not think, because they have a lot of stake in this. If we are not in on that in the early stages we may be sorry in 20 years time and that is the context in which I think we may have one of our most important opportunities in the next few years.

The Chairman: I was interested to note you quoted the Premier of British Columbia. I did not know that he had become such that he is used as a source for academic economists, although it is a very interesting quotation.

Dr. English: I can give you the source of anything you might like to mention.

The Chairman: The quotation indicates a certain imbalance in production moving between his province and Ontario and Quebec. Could it be what you might call both structural and price factors that help explain why the relatively small portion of the production of British Columbia moves into the markets in Ontario and Quebec?

Dr. English: Yes, I think the things that British Columbia specializes in find markets outside the country.

The Chairman: So it is not really because the nasty old tariff is slanted to help Ontario and Quebec?

Dr. English: No; the British Columbia economy is probably more fully rationalized now than the eastern economies are in this respect. It is producing the things it can do best. It does not have much of a protective sector.

The Chairman: What I am driving at is the fact that in 1962 they sold only \$130 million worth of products in Ontario and Quebec which is not necessarily due to some rigging of the tariff structures.

Dr. English: No, the selling part is not but the other is—the buying part is. That is the point he is making really. They are having to buy from Ontario and Quebec whereas under liberal free trade including the United States—I do not mean only the United States, but including the United States—there would be much more north-south flow of manufactured goods.

The Chairman: But he certainly would not support some move to remove those situations in the trade policy which facilitate the movement of his products to the United States so that more of it will flow to Ontario and Quebec.

Dr. English: No, he wants to reduce the flow from Ontario and Quebec to British Columbia.

[Translation]

Mr. Clermont: A supplementary question, sir. We could perhaps reverse the situation for the East. If the East also had the right to purchase wheat from the United States, it would be cheaper than purchasing wheat or corn from the West.

[English]

The Chairman: I think Mr. Clermont made an interesting comment. He wondered if we could turn this around—I think I am summarizing his question—and whether Premier Bennett would agree that we, in the East, could buy wheat on world markets—

Mr. Clermont: And corn.

The Chairman: —and corn—free of the protective system built into the Canadian tariff and the Canadian Wheat Board Act.

Mr. Macdonald (Rosedale): At one time they used to use the word "corn" in talking about...

The Chairman: The juxtaposition was perhaps coincidental but I think Mr. Clermont's intervention is most interesting.

Mr. Cameron (Nanaimo-Cowichan-The Islands): These are not the products that Premier Bennett has in mind. We do not produce corn or wheat in B.C.

Dr. English: Most corn is produced in Ontario, I must agree.

• 1735

Mr. Lind: Mr. Chairman, there could be a lot more products of the forest used in Ontario, maybe, than there are but the industries in British Columbia did not take advantage of the exchange rate and a lower freight rate, maybe to the New York seaboard, for their forest products.

The Chairman: That is an interesting comment and something you have some special knowledge of because of your own experience in the lumber business.

Dr. English: One of the oddities of North American trade is the effect of the strange shipping rate structure in that particular field.

The Chairman: As we appear to have no further questions or comments at this time, I am sure the Committee would like me to thank both Dr. English and Miss Jensen for a very stimulating presentation and a very informative exchange of views.

We reconvene Tuesday morning at 11:00 a.m. and we have a series of very interesting briefs to hear at that time. We are going to start with the Canadian Importers Association brief followed by the Machinery and Equipment Manufacturers' Association after which a brief will be presented by Mr. Cooper and Mr. Richard of the law firm of Gowling, MacTavish Osborne & Henderson.

[Translation]

I now declare this meeting adjourned.

APPENDIX I

DEPARTMENT OF INDUSTRY

Industrial Policy Adviser,
Place de Ville,
21st Floor, 112 Kent Street,
Ottawa 4, Ontario.

January 24, 1968.

John Gilbert, M. P.,
House of Commons,
Ottawa.

Dear Mr. Gilbert,

During the hearings of the Standing Committee on Finance, Trade and Economic Affairs, on January 18th, at which I appeared as a witness, you asked whether a Canadian subsidiary of a U.S. company would be eligible for assistance under the Adjustment As-

sistance Provisions of the U.S. Trade Expansion Act of 1962 (Page 346, Minutes of Proceedings and Evidence, January 18th).

In my reply, I indicated that I did not think a Canadian subsidiary would be eligible for assistance under the U.S. Program. I can now confirm that answer. Under the U.S. program, assistance would only be made available within the United States and the Commonwealth of Puerto Rico.

Yours sincerely,

Original Signed by
H. WRIGHT
H. Hume Wright.

c.c. Mr. Herb Gray, M.P.,
Chairman, Standing Committee
on Finance Trade and Economic
Affairs.

APPENDIX J

Transportation Equipment	Imports			Exports			Trade Balance		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
		\$,000			\$1000			\$,000	
AUTOMOTIVE									
Convertible automobiles, new	18,333	24,109	33,526	67,667	148,643	429,624	- 71,062	- 89,737	18,496
Closed sedans, new	107,870	196,159	348,632						
Other passenger automobiles and chassis	12,526	18,112	28,970						
Trucks, truck tractors and chassis	14,152	29,774	69,954	8,163	21,382	145,190	- 5,989	- 8,392	75,236
Other motor vehicles	22,786	37,925	51,006	6,311	11,216	28,067	- 16,475	- 26,709	- 22,939
Motor vehicle engines	30,063	54,927	111,749	31,286	44,358	137,857	- 71,092	- 91,366	- 65,715
Motor vehicle engine parts	72,315	80,797	91,823						
Auxiliary electric equipment for engines	16,941	24,566	34,444	67,210	131,094	256,481	-489,508	-576,497	-622,958
Other motor vehicle parts	539,777	683,025	844,995						
TOTAL	834,763	1,149,394	1,615,099	180,637	356,693	997,219	-654,126	-792,701	-617,880

Information supplied by the Dominion Bureau of Statistics.

APPENDIX K

*Statement by the Consumers'
Association of Canada for the
Standing Committee on Finance,
Trade and Economic Affairs on
the proposed Customs Tariff
Resolutions (Kennedy Round)*

We would like first of all to express our satisfaction with the successful completion of the Kennedy Round negotiations, and our appreciation for the efforts of the Canadian negotiators who worked toward this achievement. We regard the Kennedy Round agreements as another and a major step in a continuing process of liberalization of world trade, and thus as a source of benefit to consumers in all countries.

We would like to raise three points in this statement. Given the magnitude of the task and the limited time available, we have not been able to provide a quantitative analysis of the effects of the Kennedy Round tariff proposals, but we hope that our qualitative remarks will be useful to the Committee. Our three points refer to:

1. the desirability of stronger direct representation of consumers in future Canadian trade negotiations,
 2. the regional impact in Canada of relaxation of Canadian trade restrictions, and
 3. the importance of continuing efforts to reduce those impediments to international trade which will still remain after the Kennedy Round tariff cuts are completed.
1. "...the mythology of tariff negotiation is very similar to that of seduction: in each case the benefit to be received is treated as a loss for purposes of negotiation; and in each case the consequence of this fiction is continual frustration and frequent non-consummation." (H. G. Johnson, *The Canadian Quandary*, p. 30.)

The usual language of tariff negotiations is somewhat misleading. The talk is of "exchanging tariff concessions," as if the reduc-

tion of its own tariff were a price a country must pay in order to gain freer access to foreign markets. But in fact, of course, a country gains from both sides of the "exchange." The reduction in its own tariff encourages the more efficient use of a country's resources, by forcing them into efficient, competitive lines of production, while consumers enjoy the lower foreign prices of items which cannot be produced as cheaply at home. We recognize the problems and dislocations which are faced by the workers and management of an industry that depends on a tariff when that tariff is lowered. However, we would emphasize the widespread gain, to all consumers, from the improved efficiency and lower prices that a lowering of tariffs encourages. The once-for-all cost of reasonable adjustment assistance to the few who are hurt by a tariff cut must be viewed in relation to the continuing gain to the whole consuming public.

We note that the largest proposed reductions in the Canadian tariff are in items which are used in production—machinery, industrial materials, and other intermediate products. In general, the tariff reductions proposed for finished consumer goods are considerably more modest. We welcome lower tariffs on items used by Canadian producers, in the hope that lowered production costs will eventually lead to lower consumer prices. However, we wish to point out that "effective protection" of inefficient producers may be reduced rather little by the particular pattern of tariff reductions proposed. The following hypothetical example illustrates the idea:

Suppose an industry produces a product which sells domestically for \$250. Of this amount, say \$100, is the duty-free cost of imported materials, \$20, is the duty paid on the imported materials, with a 20 per cent tariff on them, and the remaining \$130, is value added domestically. Suppose also that the same product is produced abroad for \$200, and that there is a 25 per cent duty on imports of the finished product. Thus both the domestically produced product and the imported product sell at \$250. These numbers are summarized as follows:

Domestic Industry		Competing Import	
Imported materials	\$100	Imported finished product	\$200
Duty on above at 20%	20	Duty on above at 25%	50
Domestic value added	130		
Selling price of domestic product		Selling price of imported product	
	\$250		\$250

Now suppose that tariff reductions are made, like the proposed Kennedy Round reductions in that tariffs on finished products are reduced less than are tariffs on materials. Let

the duty on materials drop from 20 per cent to 10 per cent, and the duty on the finished product from 25 per cent to 20 per cent. The competitive situation then becomes:

Domestic Industry		Competing Import	
Imported materials	\$100	Imported finished product	\$200
Duty on above at 10%	10	Duty on above at 20%	40
Domestic value added	130		
Selling price of domestic product		Selling price of imported product	
	\$240		\$240

Under the new, lower tariffs *effective* protection of the domestic industry is not reduced at all. Domestic producers can still compete with imports while their domestic costs of production are unchanged at \$130. No incentive or pressure has been applied to domestic producers to improve their efficiency. Admittedly, the arithmetic example was rigged to yield this result; but the point is, it seems that to a considerable extent so are Canada's Kennedy Round tariff proposals.

Again, we wish to emphasize our approval of the tariff reductions which are proposed. However, we feel that consumers would derive greater and more immediate benefits from a pattern of tariff reductions which included greater reductions on finished products. We feel that it would be desirable, in future trade negotiations, that more direct representation of the consumers' point of view be provided during the negotiations.

2. Since most of Canada's manufacturing industry is located in Ontario and Quebec, the Canadian tariff is generally believed to favour those provinces at the expense of the other regions of the country. Of course, there are numerous exceptions to this belief; there are protected industries in all parts of the country. However, it seems clear that on balance the Canadian tariff does lead to a substantial net payment, in the form of higher prices, to central Canada from the rest of the country. For example, the Premier of British

Columbia stated a few years ago, "We estimate the additional cost to our residents of purchasing goods from protected domestic industry to be in excess of \$100 million in 1962 on imports of more than \$600 million from Ontario and Quebec... While British Columbia bought more than \$600 million of goods from Ontario and Quebec in 1962, we sold only about \$130 million of our products to those domestic markets."

Thus it has seemed that the Canadian tariff works to the net benefit of central Canada. However, we wish to call to the attention of the Committee the recently published study by Professors R. J. and Paul Wonnacott, *Free Trade Between Canada and the United States: The Potential Economic Effects*. The Wonnacott brothers argue that Canadian manufacturers could compete effectively in the United States if they had free access to that market. The argument is that Canadian production is high cost mainly because the typical Canadian plant produces a wide variety of product lines with inefficiently short runs of each line. With access to the huge United States market, Canadian production could be restructured, achieving a strongly competitive position based on long product runs and on the fact that wages are lower in Canada than in the United States. The Wonnacotts suggest that in such a situation wages in Canadian manufacturing could actually be raised as much as 30 per cent on the basis of improved productivity.

We do not wish to take a stand at this time on the question of a Free Trade Area, but we do wish to point out that our traditional view about the regional effects of the Canadian tariff may be due for rethinking in the light of the Wonnacotts' findings. It is still no doubt true that the Canadian tariff imposes a net burden on the other regions of the country, but it can no longer be taken for granted that the tariff is the most favourable arrangement for manufacturing industry in central Canada.

3. Finally, we wish to express on behalf of Canadian consumers the desire that our government should vigorously continue to seek the further liberalization of international trade, including further tariff negotiations, negotiations concerning non-tariff barriers to trade, measures to foster trade with underdeveloped countries, and a search for the trade strategy that is appropriate in view of the tendency toward regionalization of international trade.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1968

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 19

TUESDAY, JANUARY 30, 1968

RESPECTING

Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round)

WITNESSES:

From the Canadian Importers Association: Messrs. Ernest P. Carr, President; Keith G. Dixon, General Manager; Murray E. Corlett, Q.C., Counsel. *From the Machinery and Equipment Manufacturers Association of Canada:* Messrs. J. P. Finnigan, President; H. J. A. Chambers, Past President; G. D. Lewis, Vice-President. *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs. *From the Department of Industry:* Mr. J. McKennirey, Machinery Branch. *From the Department of Trade and Commerce:* Mr. A. R. Porter, Office of Trade Relations.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont
and Messrs.

Ballard,	Hees,	McLean (<i>Charlotte</i>),
Beaulieu,	Irvine,	Monteith,
Cameron (<i>Nanaimo-</i>	Laflamme,	More (<i>Regina City</i>),
<i>Cowichan-The Islands</i>),	Lambert,	Noël,
Cantin,	Latulippe,	Thompson,
Comtois,	Lind,	Wahn.
Flemming,	Macdonald (<i>Rosedale</i>),	
Gilbert,	Mackasey,	

Dorothy F. Ballantine,
Clerk of the Committee.

ERRATUM

Issue No. 18, Thursday, January 25, 1968

On page 467, line 31, the statement attributed to Mr. More (*Regina City*), should be a question, beginning as follows:

Mr. More (*Regina City*): Is it not true, Dr. English, that in the EEC their agricultural tariffs.... etc.

MINUTES OF PROCEEDINGS

TUESDAY, January 30, 1968.

(25)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.15 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Gilbert, Gray, Hees, Lambert, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Noël, Thompson—(13).

In attendance: *From the Canadian Importers Association:* Messrs. Ernest P. Carr, President; Keith G. Dixon, General Manager; Murray E. Corlett, Q.C., Counsel. *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs. *From the Department of Industry:* Messrs. J. McKennirey, Machinery Branch and L. F. Drahotsky, Chief, Commercial Policy Division. *From the Department of Trade and Commerce:* Mr. A. R. Porter, Office of Trade Relations.

The Committee resumed consideration of the subject-matter of the proposed Customs-Tariff resolution.

The Chairman introduced the representatives of the Canadian Importers Association, and at his request, Mr. Carr summarized the Association's brief. In accordance with the resolution passed on December 19, 1967, the brief is attached hereto as *Appendix L*.

At the Chairman's request, Messrs. Annis and McKennirey commented on the brief.

Messrs. Corlett, Carr and Dixon were questioned and Dr. Annis also answered questions directed to him. The questioning having been completed, the Chairman thanked the witnesses who then withdrew.

At 1.15 p.m., the Committee adjourned to 3.30 p.m. this day.

AFTERNOON SITTING

(26)

The Committee resumed at 3.55 p.m., the Chairman, Mr. Gray presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gilbert, Gray, Hees, Lambert, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Noël—(11).

In attendance: *From the Machinery and Equipment Manufacturers Association of Canada:* Messrs. J. P. Finnigan, President; H. J. A. Chambers, Past President; G. D. Lewis, Vice-President; Hugh Crombie, General Manager; and the same government officials as at the morning sitting.

The Chairman introduced the witnesses and at his request, Messrs. Finnigan and Chambers summarized the brief, which, in accordance with the resolution passed on December 19, 1967, is attached hereto as *Appendix M*.

At 4.00 p.m. the Vice-Chairman took the chair and at 4.55 p.m. the Chairman resumed the chair.

At the request of the Vice-Chairman, Messrs. Annis and McKennirey commented on the brief.

Messrs. Finnigan, Chambers and Lewis answered questions directed to them by the Committee.

In accordance with the decision of the meeting of January 18, 1968, information supplied in answer to questions raised by members is attached as *Appendix N*.

The questioning having been completed the Chairman thanked the witnesses, who then withdrew.

At 6.15 p.m. the Committee adjourned to 3.30 p.m., Wednesday, January 31, 1968.

Dorothy F. Ballantine,
Clerk,
Standing Committee on
Finance, Trade and Economic Affairs.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, January 30, 1968.

The Chairman: Gentlemen, I think we are ready to begin our meeting, unofficially at this stage.

The first group of witnesses this morning represents the Canadian Importers' Association. With us on my immediate right is Mr. Ernie Carr, President of the Association; to his right, Mr. Keith Dixon, General Manager, and to his right Mr. Murray Corlett, Legal Counsel of the Association.

I have asked Mr. Carr to summarize the brief for us in a few minutes and then we will move immediately to discussion.

Mr. Ernest P. Carr (President, Canadian Importers' Association): Mr. Chairman and gentlemen, on behalf of Canadian Importers' Association we want to thank you and your Committee for giving us an opportunity to present the views of this Association arising from the government resolutions presently before the House of Commons relating to the recently concluded Kennedy Round tariff agreement. In this brief we will exclude any reference to the new international code on anti-dumping policies which, from the point of view of Canadian importers, was an equally important part of the Kennedy Round agreement and which, presumably, will be implemented by legislation to be introduced into Parliament at a later date. We have already made our views known to the interdepartmental committee last fall on this subject.

The Canadian Importers' Association is the national association in Canada representing the interests of Canadian importers. There are presently 626 members made up of straight importers of goods, Canadian manufacturers who are required to import complete production machinery, component parts, and firms engaged in servicing the import trade such as chartered banks, customs brokers and warehousing organizations.

In a general way, the Canadian Importers' Association endorses completely the results of

the Kennedy Round of tariff negotiations with particular reference to Canada's commitments. Since the time of its incorporation decades ago this Association has consistently been an advocate of freer international trade.

It is the opinion of the Association that one of the most important results of the Kennedy Round agreement is that GATT will continue as an effective international organization governing the conduct of international trade.

It is the view of this Association that in this respect the Canadian representatives did extremely well with the result that Canada did not make as great tariff concessions as many people are inclined to think were made. We have some reservations.

The Minister of Finance, in a supplementary budget statement to the House of Commons on October 4, 1967, referred to the Kennedy Round agreement in some detail. Particularizing, the Minister went on to state that in the future Canadian rates of duty on final manufactures will generally be about 17½ per cent to 20 per cent as compared with the old range of 22½ per cent to 25 per cent.

• 1115

Although these statistics are encouraging, yet the Economic Council of Canada has analyzed the effect of the Kennedy Round rates in its Fourth Annual Review published in September 1967, in part, as follows:

Indeed Canada emerges as a relatively high tariff country as regards tariff on manufactured products among the world's great industrial nations. To the extent that still further benefits can be gained from still further reductions in trade barriers in the future, it should be an important continuing objective of Canada's international economic policies to maintain an active interest in exploring, in close association with our principal trading partners, how further reductions in trade barriers can be effectively achieved.

Again, some excerpts:

Many of these items still retain MFN rates of duty ranging between 25 per cent and 30 per cent. In addition, even amongst the tariff items that were negotiated quite a number of them, on January 1, 1972, after all the successive rate reductions have been made, will still attract MFN rates of duty of 22½ per cent or 25 per cent.

Consequently, it is our submission that the Kennedy Round reductions in duty rates will be beneficial having regard to the extent of their coverage, but that they do not go far enough.

An excerpt from the Third Annual Review of the Economic Council reads:

The route of tariff reduction for manufactured products is, in our judgment, the most promising of all routes towards increased specialization in Canada and the consequent narrowing of the existing gap in productivity in manufacturing between Canada and the United States. By "tariff reduction" we mean negotiated reductions in both Canadian and foreign tariffs.

One of our great reservations is that as tariff item 42700-1 is set up we fear it will be a very cumbersome item to administer. We fear that it could be discriminatory against importers but it is important to note that in this type of import the main beneficiary is more than likely to be a Canadian manufacturer. Our members had an experience with the same machinery items under the Emergency Exchange Conservation Act between 1948 and 1951 that we hope will not be repeated.

It must be recorded that this Association was pleased to note that the Minister of Trade and Commerce did inform the Commons on September 27, 1967, that the Kennedy Round of tariff negotiations did not represent the end of the road towards freer trade in so far as Canada is concerned. Then later the same Minister informed the Commons on December 11, 1967, after his return from ministerial sessions both at GATT and the Organization for Economic Cooperation and Development, of the stand taken by Canada at these meetings. It is encouraging to note that Canada went on record as advocating further reduction and removal of trade barriers. In particular the Minister of Trade and Commerce requested

duty free treatment for primary industrial commodities, the elimination of nuisance duties, greater trade liberalization of agricultural products, and improved trading opportunities for developing countries.

A number of the tariff concessions made by Canada involve total reductions of only 2½ per cent and it is proposed that the staging of the reductions be carried out by five annual reduction of ½ of 1 per cent. Many affected members of our Association are of the opinion that this method will be unduly costly and inconvenient to them as importers. In the official government press release issued on June 29, 1967, it was stated that tariff concessions granted by Canada could be implemented in a single step whereas, staging the reductions over a four-year period might be undesirable. We submit that cases in which the proposed annual reduction is only one half of 1 per cent offer such a situation.

• 1120

The Chairman: Thank you very much, Mr. Carr. Before opening the meeting to questions or comments by the members I would ask Dr. Annis, Director of Tariffs, and Mr. McKennirey of the Machinery Branch, Department of Industry, for their preliminary comments.

Dr. Annis (Director of Tariffs, Dept. of Finance): Mr. Chairman, I really had not planned to make any comments at all and if I added any now they would be of a very preliminary sort.

In general, I would agree with and subscribe to nearly everything that Mr. Carr has said. Any points on which I differ with him at all would be merely matters of emphasis. Possibly, it is worth mentioning one or two of those now, although in doing so I would not want to give the impression that I was arguing points with him.

The Chairman: Before you proceed, I think we should note for the record that we have been in a position to proceed officially for some minutes now.

Dr. Annis: I might refer to two or three of the points Mr. Carr made, which really emerge also in his brief. The first is at page 3 of the brief, where he made the statement that Canada emerges as a relatively high tariff country regarding tariffs on manufactured products. My comment would be that the validity of that statement really depends upon the countries with which the comparison is made. Certainly if one compares aver-

age Canadian rates of duty on manufactured products with those prevailing in the most highly developed and largest industrial countries such as the United States, the EEC and even the United Kingdom, although their tariff is not quite as low, our average rates are higher. If one makes the comparison with countries such as Australia or others which you might say are not as highly developed, then I think the comparison would be found to be quite the opposite: Canada would emerge as a relatively low tariff country if you selected countries with which the comparison is made rather differently. That would be the only comment that I would make on that point. I do not disagree; I simply try to introduce a little change in emphasis there.

• 1125

I think the second point is related to it. Further down on the same page in the brief, when Mr. Carr referred to the same point again he referred to the fact that many of the Canadian items retain MFN rates of duty ranging between 25 per cent and 30 per cent. This, as a generalization, I think would be correct only if one is looking at the textile sector. In other sectors, surely, rates between 25 and 30 would be rather rare exceptions to the general rule rather than representing the general rule.

Finally, on the suggestion that while the reductions which we have agreed to make are beneficial they do not go far enough, I would suggest this raises the point as to what your objectives are. I think we in the Kennedy Round negotiations went as far in terms of offering Canadian contractual reductions as was necessary in order to buy, if that is the right word, the concessions in other countries' tariffs that were open to us. If it should be decided as a matter of policy that it was desirable to go further in reducing the Canadian tariff, then a secondary question is raised as to whether it would be wise to bind those—in effect, negotiate them down—or to move unilaterally as a matter of policy, and if it were done in that way then the move would be reversible rather than being largely irreversible if commitments and bindings are made.

Mr. Chairman, those are my preliminary comments, and I think I will let it go at that.

The Chairman: I should say that in the course of questions and comments exchanged

with members the witnesses will have a chance to respond to comments made by the officials.

Mr. McKennirey, do you have any preliminary comments on the section of the brief relating to your Department?

Mr. McKennirey (Director, Machinery Branch, Department of Industry): Yes, I have, Mr. Chairman. Referring to the Association again, I might preface my remarks by repeating what Dr. Annis has said, that it would not be our purpose to argue with the generality of what the Association has said. However, there is a matter of emphasis here and I would like to comment in that respect.

On page 6 of the brief, the Association is concerned that the proposed administration of the machinery program would be very cumbersome. The fact is, Mr. Chairman, that the machinery program was introduced in order to overcome the cumbersomeness of the previous method dealing with "not made" and "made" distinctions in the machinery tariff items. The practice to date has indicated that the program will not be cumbersome. You will recall, Mr. Chairman, that we spent some time some weeks ago discussing the administrative procedure by which the program would be handled, at which time we presented statistics and estimates of the time involved in making the decisions for the Board. Our experience to date has verified the expectations that were expressed at that time. I might add, Mr. Chairman, that the Canadian Manufacturers' Association last year submitted a brief to the government which recommended the approach that is involved in the machinery program in lieu of the administratively cumbersome procedures then in effect on machinery imports.

With respect to the reference to the Emergency Exchange Conservation Act, Mr. Chairman, although I am not familiar with it in detail, there is one element that I think should be noted, that the machinery program as presently visualized makes provision for further appeal of the decisions of the Machinery and Equipment Advisory Board whereas, as I understand it, under the Emergency Exchange Conservation Act no such provisions existed.

• 1130

Those would be my preliminary comments, Mr. Chairman.

The Chairman: Are there any Trade and Commerce aspects of this brief on which you might like to comment, Mr. Porter? If not, we will open the meeting to comments and questions.

Mr. Murray E. Corlett, O.C. (Association Legal Counsel at Ottawa, Canadian Importers' Association): Mr. Chairman, would you like us to answer the questions that have been put to us so far or should we just make a note of them, and answer them later?

The Chairman: We will ascertain whether members of the Committee would prefer to have a response from the witnesses now or whether they would prefer to direct questions to them? Would you like to respond at this time, Mr. Corlett?

Mr. Corlett: Yes, Mr. Chairman. Referring firstly to that part of Dr. Annis' preliminary statement where he referred to the reference in the last Annual Report of the Economic Council, where the reference to Canada being a relatively high tariff country is mentioned, what the Association had in mind of course in making the statements that it did was simply this. The Committee will realize, of course, being an association of importers that by and large the members of course are very happy with the results that Canada achieved as a result of the Kennedy Round sessions. However, we have felt, in looking at press statements and hearing comments from interested parties at one time or another, that there was a segment of the business community which felt, because of the massive size of the Kennedy negotiations, that as far as Canada was concerned the end of the road had come by way of further reductions in tariffs and the elimination of non-tariff barriers, and in an endeavour to counter that we inserted this particular part of the brief. We were encouraged, of course, to see the statement made in the House by the Minister of Trade and Commerce that Canada had not reached the end of the road, as far as further tariff reductions were concerned, and we felt that in order to put the matter in proper perspective it should be pointed out—although I realize it is presumptuous of me to say this and I do not include an expert such as Dr. Annis—there were a large number of tariff items in the Canadian Customs Tariff that were not the subject of negotiations at Geneva at all in the Kennedy Round.

As a matter of curiosity I combed through the Customs Tariff just to see what there was

left and, without giving the information in detail, it appeared to me that there are still a fair number of tariffs relating to finished products outside the textile range where the rates would be as high as 25 per cent. I noticed tariff Item 4400-1, which deals with condensed coffee with milk where the MFN rate is still 35 per cent. We merely put this in the brief to show that there is still some scope for further activity on the part of Canada in international trade negotiations.

Secondly, the Minister of Finance in his supplementary budget statement in November stated that as a result of the Kennedy Round discussions, as far as Canada was concerned, on finished products there was on the average a rate reduction of anywhere from 22½ to 25 per cent to something averaging between 17½ per cent to 20 per cent. In many instances that is perfectly true. There were very substantial reductions, but we merely point out by looking at the items in the Resolutions, the subject matter of which is before this Committee, that even after the 5-point staging program has been completed by January 1, 1972, there still will be a fair number of Canadian tariff items at 22½ per cent and there might even be one or two that are still up at 25 per cent. That was the burden of the argument we wanted to make on that point.

• 1135

Thirdly, if I might comment on Mr. McKennirey's observation concerning what we fear might be a cumbersome administration of this new omnibus machinery tariff item, we certainly are of the opinion that this could happen and we cited as a precedent the operations of the Emergency Exchange Conservation Act, which the members will remember was occasioned by the foreign exchange crisis which involved Canada in the autumn of 1947. This act was in effect for a period of about three years. It was terminated—it was an emergency statute—I think, on January 15, 1951. Our point is that all that statute said was that no imports could be made of machines under either tariff items 427 or 427a—two of the most important predecessors of what will now be 42700-1, unless a permit was obtained from the Minister of Trade and Commerce. No standards were set relating to how the administrators in the Department of Trade and Commerce would decide on whether or not they would allow a piece of machinery into Canada. Having had something to do with that act, as an outside practitioner, I think it is pretty fair to say—

the departmental files, I think, will confirm me—that the availability test was used by the Department. In other words, if an application were presented for some imported machine and if it was felt that manufacturing “X” in Toronto or Montreal had something similar, they would deny the issuance of the permit.

We know this would be an extremely difficult thing for a department of government to administer and I think it is fair to say that the late Mr. Howe, as Minister, was very happy when the statute terminated. However, our observation here with reference to this new tariff item 42700-1 is simply that in the proposed wording of the tariff item it just says that there can be a remission of duty. It will be granted by the Governor in Council on the recommendation of the Minister of Industry, and in considering whether or not he will recommend remission in a particular case there are two criteria to be taken into consideration, namely, the matter of public interest and the matter of availability. That is as far as the wording of the tariff item goes.

The burden of our argument on this point is that the Minister of Industry on December 12, 1967, when he spoke in the general debate on the supplementary budget—page 5331 of *Hansard*—explained how his department was going to operate. I think it is fair to say that it was a reasonable statement, but our argument is how do we know that another Minister of Industry in ten years’ time—after all, tariff item 42700-1 will be a permanent statutory item—might not take totally different views and be extremely narrow or conservative, as far as the importer is concerned, in interpreting the criterion of availability. The importer would have no recourse.

With respect to Mr. McKennirey’s reference to the appeal board, the Machinery and Equipment Advisory Board has been created under the authority of the Department of Industry Act and the Review Board, according to the Minister of Industry when he spoke on December 12, 1967, will be established under the authority of the Department of Industry Act. However, if you look at the Department of Industry Act the only section, as I read it, which vests the right on the part of the Minister of Industry to create a board is Section 15, which reads:

The Governor in Council may establish advisory and other committees to advise or aid the Minister or to perform such duties and exercise such powers as the Governor in Council may specify, and

may fix the remuneration and expenses to be paid to the persons so appointed.

That was confirmed by the Hon. Mr. Drury’s statement on the second reading of the Department of Industry bill on June 27, 1963, as reported on page 1644 of *Hansard*. When dealing with this same clause 15, he outlined what he considered to be the scope of the clause, and I quote:

Section 15 authorizes the governor in council to appoint advisers and committees for this purpose. It is envisaged that advisory committees will be established which can be consulted respecting major activities of the department.

Our point, Mr. Chairman, is that this is not what we would consider to be a real review board in the same sense, as the Tariff Board, because the Review Board and the Machinery and Equipment Advisory Board can only advise or recommend. In other words, they do not have the authority to alter the thinking of the Minister of Industry. That, of necessity, must be how it should be as long as the Minister is given discretionary power and it is our fear that this could—at the moment we do not know because the scheme has not been in operation long enough—develop into a highly protectionist device which might work to the detriment of the importer. If I might be permitted to refer to what I consider to be very straight-forward evidence given by Mr. McKennirey when he appeared before this Committee on January 17 of this year, I think that our fears might be quite well-founded. For instance, at page 295 Mr. Wahn, asked questions about the way hearings would be conducted, and about the way publicity would be given to decisions made by the Advisory Board. Mr. McKennirey, at the bottom of the first column on page 295, looked at the matter of publicity from the point of view of both the Canadian manufacturer and the importer, and he made the following statement:

The machinery manufacturers have indicated to us through their association, that they will be satisfied with periodic visits to the Department of Industry to review where all the remissions are taking place. They believe that they can satisfy themselves that their protection is not being eroded, but if each of them attempted to screen what is happening each week 350 remissions it would be an impractical task.

The best thing that he could do is to go to the Machinery Branch of the Department of Industry, which is concerned with his protection and with his development, and they will be watching carefully and will analyze and be able to tell him exactly where remission is occurring. I think the machinery manufacturers would welcome that service rather than having the job of screening 350 applications a week themselves.

Then the witness went on to indicate what the position of the importer was, and unless I have read this inaccurately—and I would be glad to have Mr. McKennirey correct me if I am wrong—I do not see similar privileges being given to the importers. Can the importer go to the Department of Industry and look through these orders of remission? This is the type of thing that we fear.

The Chairman: Thank you, Mr. Corlett. Before throwing the meeting open to questions, perhaps I could ask one brief question.

Mr. McKennirey, is the opportunity to look at the rulings in the files of the Department available only to domestic manufacturers or is it available to importers as well?

Mr. McKennirey: The opportunity is available to all importers, Mr. Chairman. In addition to this, importers can write to the Machinery Board before they make any importation or place an order and they can obtain information on whether or not the item is considered to be available.

In the Department of Industry there are branches which represent many importers; the mechanical transport industry, food, and so on. All of these industry sectors, on behalf of their industries, can and will do all they can to assist the importer to make his case. Under the administrative arrangements that have been set up, Mr. Chairman, there are no barriers whatever to importers being briefed in whatever way they wish to be briefed.

The Chairman: Perhaps we should now let the members pose their questions. Those who have questions must indicate in the usual way. I recognize Mr. Lambert and Mr. Macdonald.

Mr. Lambert: Mr. Chairman, Mr. Corlett raised a point concerning the legal status of the Machinery Advisory Board which has been bothering me. We have not been able to examine anyone in connection with this because the Minister of Industry, under

whose act this arises, has not been before us. It certainly is not up to Mr. McKennirey to answer the yea or nay of this. It is my considered opinion that what is now being set up is a regulatory and an administrative board, under power to set up an advisory board. The tariff item itself is designed so that the Minister of Industry will make the remission of duty, but the administration will be under an advisory board. However, none of the witnesses here today are actually competent to determine this point, and I certainly would not ask Mr. McKennirey, but it certainly does point up that question and I think we will have to ask Mr. Drury about this.

The Chairman: I think that you could ask Mr. McKennirey about the details of the administration. In other words, who does what?

Mr. Lambert: I think we went into this in great detail the other day, and I must say that Mr. McKennirey did not hold back at all on the question of the detail of the administration, as far as the limited experience they have had goes, and I have nothing to say on that. But I question the legality of the setting up of this board under the powers as indicated in the Department of Industry Act.

What I would like to have the view of Mr. Corlett or other witnesses on behalf of the importers' association, on what they anticipate may be some difficulty in the continuity of determining what is public interest; in other words, differing standards at different levels. Whereas the Advisory Board, basing themselves on the precedence that they have dealt with in other cases, and so forth, may come to a point where they will say, No, this is not in the public interest. However, as the remission is in the hands of the Minister of Industry and he has to recommend this to the Governor in Council, that at that level there shall be a different standard of public interest, different persons having access to the Minister, and this is based entirely upon experience. One may get some rather startling results and as a result the potential for this is built in and it comes as a result of discretion.

I was wondering what the importers have got to say about this?

Mr. Corlett: Mr. Lambert, this type of problem, of course, is not new to the importers. I mentioned the Emergency Exchange Conservation Act of 1948. Of course, there was nothing that could be done then because

this was an emergency situation and it was only to be a temporary statute. As lawyers, we know that where the legislators have said in a statute that the Minister will be given discretion, that the affected taxpayer has to concern himself with the good judgment and fairness of the Minister because no court or tribunal would interfere in any way, shape or form.

• 1150

You may remember, Mr. Lambert, that in 1961—certainly in the evidence the machinery that came under section 427 and section 427A loomed very large in the discussions in both the House and the Senate—there was a bill, Bill C-72, which was an amendment to the Customs Tariff, and although it did not speak in terms of availability in the case of custom-made goods to specifications, such as power generators and that type of thing, as distinguished from shelf goods, the proposed section in Bill C-72 spoke in terms of if there were adequate facilities in Canada to make the article in question, and if so it would then be deemed to be of a class or kind made in Canada. The proposed section went on to say that the decision of the Minister would be final, and you will remember this was where the Bill foundered because the Senate threw that section out and said they would only accept it as long as it was modified to permit, "subject to an appeal to the Tariff Board the Minister's decision will be final".

This has always worried the importers' association. We participated in that debate in the Senate Committee on Banking and Commerce.

Mr. Lambert: Yes, Mr. Chairman, I know this fairly well and I know the rationale behind limiting the appeal.

Mr. Corlett: Yes.

Mr. Lambert: The reason for limiting the appeal was to get a decision that could not be dragged on ad infinitum. Now that is a judgment decision; whether it is right or wrong is a matter of discussion, but in essence I am suggesting that you are getting the same sort of thing in a different way.

Mr. Corlett: This is my point and it may prove to be not well-founded from the point of view of the importers, and again it depends on the judgment of a particular Minister of Industry. But the importers have always felt happier when they knew they had

a right of appeal to an independent body of some sort arising from a departmental decision on tariffs.

Mr. Lambert: There is the provision for this review board, and this is another subject on which you may want to comment. However, I am primarily concerned about the view of the Canadian Importers' Association on the possibility of differing standards of public interest.

Mr. Corlett: Mr. Lambert, if this was possible, and I am not saying that it is, this is the task of the legislator. These are part of the criteria that the Minister, whoever he might be, must take into consideration when he determines whether or not something is in the public interest. To have spelled out in black and white somewhere in the legislation the safeguarding of the interests of importers as tax payers would be the best possible situation.

Our point is that under the proposed wording of Tariff Item 42700-1 not very much is said other than that the factors of availability and of public interest are mentioned.

Mr. Lambert: I am going to put it to you in different terms, then. When it comes to the point of remission in the recommendation the question of public interest may be rather equivocal to a number of the people who are going to make the remission, or who are going to sit on the remission, or not. In other words, because such-and-such an area is affected one way or another those people who are going to be sitting in on the remission have an interest. That is what I call the differing standards of public interest.

I am not questioning the Board. They will approach it from a much more objective point of view. Notwithstanding that, however, there will still be power, as there has been power under section 22 of the Financial Administration Act, to remit duties; yet the procedures there were much more difficult to substantiate than they will be here. I would like to get your views on that.

Mr. Corlett: Mr. Lambert, I think the views of the Association are that what you have described represents a real problem for the government administrators, because the standard of public interest can quite easily vary from day to day where you have the same minister; or from month to month, or year to year, where there are different ministers.

• 1155

Mr. Lambert: And different financial conditions?

Mr. Corlett: And different financial conditions.

Mr. Lambert: I would also like to hear what you think about public interest in a case where a firm, involved in importation and represented by importers, may have been involved in some restrictive trade practice in the past and have a black mark on its escutcheon. In your mind, should this affect the question of whether or not it would be in the public interest to permit the remission of duty?

Mr. Corlett: Referring to the specific instance that you have in mind, I certainly must say, for myself, that I would not want to be a minister who would have to make a decision on it. Although I think it is less likely, of course, that importers are going to become involved in restrictive trade practice matters they conceivably could.

However, that particular importer has been the subject of a detailed report of the Restrictive Trade Practices Commission, there have been resulting prosecutions and he has paid the penalty, whatever it may have been. Five years later the point that we were talking about comes up. If I am the minister, should I, or should I not take it into consideration? Perhaps the management of the firm has changed in the intervening period.

Mr. Lambert: But it is a problem.

Mr. Corlett: It certainly is; and in cases where courts of law have had to interpret the phrase "public interest" we, as lawyers, could easily find precedents of their having had great difficulty in coming to a conclusion.

Mr. Lambert: I will waive any further questioning on this round, Mr. Chairman.

The Chairman: I have Mr. Macdonald next; followed by Mr. Clermont and Mr. Hees.

Mr. Macdonald (Rosedale): This question is addressed to the delegation. Perhaps they can choose who will respond to it.

I am a little puzzled by the brief's approach to the Kennedy Round negotiation. On page 3 and following, is it the suggestion of the Importers Association that Canada should have cut its tariffs irrespective of foreign concessions?

Mr. Carr: Not irrespective of foreign concessions; having regard to foreign concessions.

Mr. Macdonald (Rosedale): Your brief seems to me to indicate that there was a failure on the part of the Government of Canada to exercise a unilateral power; that we should have cut the tariffs down, and that because we failed to do that there is something wrong.

To me, it would be more realistic to look at it from the point of view of reciprocal concessions. Are you in favour of reciprocal concessions in tariffs?

Mr. Carr: On a completely broad basis; on an international basis.

Mr. Macdonald (Rosedale): If you are in favour of reciprocal concessions then presumably you do not have the unilateral power. You are governed by what the other negotiating party can do?

Mr. Carr: It has been said in our Association that a certain amount of reflection was cast on Canada because of the little it did to react to the great amounts that were done by other nations at that conference. Some people have said that they felt just a little like second class citizens in that particular negotiation.

Mr. Macdonald (Rosedale): Have you heard those objections from the foreign contracting parties?

Mr. Carr: No. I have not been in touch with them.

Mr. Macdonald (Rosedale): Presumably it is they who should be complaining about it.

Mr. Carr: There is another thing, if one wants to be honest with oneself. We ought to be able to see black or white regardless of from which side we look at it.

Mr. Macdonald (Rosedale): We seem to get back to the same point, Mr Carr. You are suggesting that we give up these positions unilaterally rather than use them as exchange counters for negotiation?

• 1200

Everybody did not drop tariffs, and we did not leave the tariffs there. There are substantial foreign barriers left are there not?

Mr. Carr: Yes.

Mr. Macdonald (Rosedale): Therefore, although we might very much have preferred

to have got the foreign barriers dropped, would we have been better off to have given up our position at this time? Had we given up our position at this time, as Dr. Annis has said, we would have lost our negotiating position at a subsequent exchange.

Mr. Carr: On your latter statement, I would say yes, we would have lost some negotiating privileges in a future situation. However, although I do not know what foreign nations thought of our approach I would be inclined to the view that they felt that we had not given a fair amount in our negotiation. I do not know that as a fact, but this is how we feel about it.

Mr. Macdonald (Rosedale): It seems to me that we keep returning to the same point. Either you are suggesting that we should have given away all, or more than was necessary, to get their concessions, or you are talking about reciprocal concessions.

I do not really follow your criticism here. We got what we paid for. We hope to get what we pay for in the future. You are saying, "Let us throw some of our money away now rather than use it as a bargaining counter later on."

Mr. Carr: We really do not feel that it is throwing it away. We feel that lower tariffs in Canada will benefit Canadians.

Mr. Macdonald (Rosedale): Will they secure for us better access to a foreign market?

Mr. Carr: We hope so.

Mr. Macdonald (Rosedale): How?

Mr. Carr: In the dollar exchange.

Mr. Macdonald (Rosedale): Yes; with the foreign protection still there, and we having given up our Canadian protection in the industry, it is quite true that prices in Canada should go down with foreign competition in say, finished products, but will we be any closer to having free access to the foreign market?

Mr. Carr: To speak of the foreign market as a whole is one thing, but the foreign market in which we are already making progress is something slightly different. With the dollars involved, which can be raised in the foreign country with our lower tariff, there can be more dollar contracts.

Mr. Macdonald (Rosedale): I am sorry, I do not follow your answer. It seems to me,

however you look at it, the fact remains that if there is still foreign protection against Canadian goods we are not going to be able to sell those goods in a foreign market.

To follow that reasoning through, I am in favour of dropping Canadian protection reciprocal with foreign protection, but if we drop it all now for a further round of tariff negotiations we have nothing to exchange and we will be dependent upon them for a unilateral act at that time.

Mr. Carr: I have agreed with you on that point, that the more we retain the more we can give away on the next round, if we are so minded.

The point I am making is that many in our Association feel that we did not come out of this one being able to shake hands all around and say "this was great fellows, you gave 50 per cent and we gave 50 per cent". We feel that we came out of it lucky, that we came out of it as the result of excellent negotiation on our part, and that we gave away less than we really should have to have walked out with a good straight back.

Mr. Corlett: I think, Mr. Macdonald, that some of the statements that Mr. Carr has in mind developed in this manner. It was felt, as Mr. Carr says, on the part of some members of the Association, that Canada might have been a little more generous with reference to the position of some of the developing countries. However, as I attempted to mention earlier, they were concerned that shortly after this Kennedy Round was announced at the end of June statements were being bandied about, probably ill-informed in many ways, that the Kennedy Round would be the last major conference involving major tariff concessions that would be held. But Dr. Annis and I heard that statement made after the Torquay Round in 1951.

Mr. Macdonald (Rosedale): But, Mr. Corlett, was it not made in the context that the next time it happens it would have to include the developing countries in toto, which of course the GATT Round did not.

• 1205

Mr. Corlett: That is quite true.

Mr. Macdonald (Rosedale): In other words the kind of proposal that President Johnson was making at Punta del Este was not confined to the narrow GATT membership, he was really talking about including all countries developed and developing.

Mr. Corlett: I would subscribe to that view, Mr. Macdonald, but in closing—and I think this may resolve the matter—may I say that when the Hon. Mr. Winters returned from the GATT Ministerial Meeting and the OECD Meeting in Paris early last December and indicated what these two groups were going to do, and that work parties were being set up to deal with what might be further relaxation not only of tariff rates but non-trade barriers in the future, some of the doubters in our organization were inclined to take heart and, being realists, they would have to subscribe to the view that at this stage Canada could not unilaterally reduce certain tariff rates unless it was for the benefit of developing countries only.

Mr. Macdonald (Rosedale): So your earlier remarks were confined really to exchanges between Canada and developing countries, not between our major trading partners?

Mr. Corlett: Well, that is certainly my impression of some of the objections that I heard in the early stages on the part of some of these members.

Mr. Macdonald (Rosedale): I would like to go to page 6 of your brief and the following question:

How binding is such an undertaking and in what form was it given?

Is that not answered from the schedules of concessions in the Kennedy Round?

Mr. Corlett: Mr. Macdonald, I have not seen anything. You have tariff item 42700-1 which proposes new statutory rates of 2½ per cent BP and 15 per cent MFN, with the proviso relating to the Minister of Industry making a remission, as well as statements that were made before this Committee and in the House earlier that, I presume, the Americans were a little leery about negotiating this particular item until they received certain assurances. The assurances had been stated but, as an outsider, I was curious to know where those assurances were.

Mr. Macdonald (Rosedale): I think it is pretty clear where they are. They are in the formal schedule of concessions. Is that not right, Dr. Annis?

Dr. Annis: That is correct but it seems to me there is something in addition to which we ought to call attention. That arises from the fact that prior to the Kennedy Round of negotiations we had a commitment resulting

from earlier rounds that in respect of the machinery of a class or kind not made in Canada the maximum rate under the MFN tariff would be 7½ per cent, and this arises from the commitment respecting the old tariff item 427a with which many of you will be familiar.

In order to make it possible for us to introduce the new machinery program with its revised commitments we had to negotiate our way out of the 7½ per cent binding in respect of the old item, 427a—machinery of a class or kind not made so—the new statutory rate could be 15 per cent in respect of all machinery whether of a class or kind made in Canada or of a class or kind not made in Canada, and then, unilaterally, it was open to us to remit the whole of the duty in respect of machinery not available from Canadian production. But under the new GATT binding our only commitments are two, one of which is the rate with respect to the whole complex under the new and very broad item, 42700-1, shall not exceed 15 per cent. This being the case, we had to renegotiate our way out of that old 7½ per cent binding. This involved a renegotiation under the provisions of Article 28 of the GATT. In that renegotiation we undertook the commitment that the incidence of the tariffs on all imports under the board new item would not exceed 9 per cent *ad valorem*. That is in a contractual commitment which has been reported to the contracting parties as a settlement between ourselves and the United States, which released us from this old obligation.

● 1210

That is not a secret because that fact has been announced by the Minister of Finance and the Minister of Trade and Commerce. However, it has not been published, it is buried in a report to the contracting parties reporting the results of a renegotiation between Canada and the United States.

Mr. Macdonald (Rosedale): But surely, Dr. Annis, referring to the specific sentence, the safeguard is set out in the schedule of concessions, which is the schedule under the Canadian concessions with respect to machines not otherwise provided and accessories,

Provided, further, that the Government of Canada shall consult, on request, in respect of the average incidence of duties under Item 42700-1 in any calendar year with any contracting party having a sub-

stantial trade interest in that item, and, if it is established in the course of such consultations that such average incidence has exceeded 9 per cent ad valorem in any calendar year, the Government of Canada shall take immediate and effective remedial measures.

The Chairman: I would like to inform the Committee that if they will look at Appendix "A" to the brief, which will be presented to us later today by Messrs. Richard and Hooper, I believe they will find that this undertaking is set out verbatim to support some of the arguments Messrs. Richard and Hooper will be making later on. I believe this brief has been distributed to the members.

Dr. Annis: Mr. Chairman, I would agree with Mr. Macdonald that it is set out there. I was simply making the other point, that this is also set out in the results of Article 28, Renegotiation.

Mr. Macdonald (Rosedale): Mr. Corlett, going on to your reference to the Emergency Exchange Conservation Act, is it not fair to say that the objectives of that statute and the objectives of the Customs Tariff are substantially different, particularly this item that the ultimate objective of the Emergency Exchange Conservation Act would have been total import replacement if that would have been possible—in other words, that you had to maximize Canadian exchange resources and the ultimate objective, if possible, would have been to import nothing.

Mr. Corlett: Of course, with reference to these machinery items, I do not imagine that any country, even though they were in a foreign exchange strait at the time, could eliminate machinery imports because after all the ultimate beneficiary of all these machinery importers presumably will be a Canadian manufacturer. But it was merely cited, Mr. Macdonald, as evidence of the difficulty that can arise in dealing with a tariff item such as this proposed machinery item. Somebody has to decide whether or not an item is available from a Canadian source. In many cases there would be no problem. But certainly I suggest that if the files of the Trade and Commerce Department of that period are examined they will find many borderline cases where it was extremely difficult. And of course there was no right of appeal at that time.

Mr. Macdonald (Rosedale): Am I right that it is your feeling that basically a court of law would be in a better position to decide wheth-

er something is available and whether its importation is in the public interest.

Mr. Corlett: This is what we would prefer and this is what the importers of course contended at the time the Bill to amend the Customs tariff in 1961 was introduced. I recognize the problem that Mr. Lambert raised earlier, that if you had a series of appeals the matter could be sub judice for years. However, if there was the right to appeal to one independent tribunal and it stopped there, I think the experience of this Association, at least since the Tariff Board was revised in 1949, would show that the importers are quite happy.

Mr. Macdonald (Rosedale): You are not suggesting then that it should necessarily be to the Exchequer Court or to a court system at all. You would be happy with a tribunal which was not bound to exercise its judgment on the basis of law alone, but law and policy, provided it was independent of the administration.

Mr. Corlett: That is correct. If the Department of Industry Act is going to be used as the basis for the Review Board and the Machinery and Equipment Advisory Board, it appears to me that section 15 has to be the section and, as I read it, it is only an advisory committee. The Review Board or the Machinery Board can go through the motions, the Minister can ignore their views completely and under the law there would be no recourse.

• 1215

Mr. Macdonald (Rosedale): You have mentioned several times the establishment of standards in the legislation for the guidance of these people. Presumably you have specific standards in mind. I wonder whether you would like to give the Association's views concerning what the standards should be.

Mr. Corlett: I am afraid, Mr. Macdonald, not being an importer myself, that I could not speak first hand. Perhaps my colleague might have some views on that.

Mr. Dixon: Mr. Chairman, replying to Mr. Macdonald, we cannot overstress this point of an objective committee or tariff board type of tribunal or court. We do not want a court of law; we are not seeking that particular end. We are seeking the objectivity of an independent government body rather than the present proposed ministerial decision which is going to boil down, in our view, to an entire-

ly personal opinion no matter who the minister is, and he can, as Mr. Corlett has pointed out, go against the advice of the two boards to be instituted by this proposed legislation. We just want something of an independent nature like the Tariff Board.

Mr. Macdonald (Rosedale): If there has to be a public accounting for the results you should give the board some direction concerning the criteria to apply, and I am asking what criteria you have in mind in making that suggestion.

Mr. Dixon: As Mr. Corlett has pointed out, so far as class or kind, or type made in Canada, or prejudice to a Canadian manufacturer, or a future Canadian manufacturer are concerned, we shall just have to rely on a certain reasonable objective view, the matter of public interest, which Mr. Lambert brought up earlier. It is going to be difficult for anybody to assess. Whether it be a Tariff Board type of administration or whether it be a ministerial opinion it is a question of opinion, and this again we do tend to object to because it is so open to doubt and question; it is always a matter of opinion. Any legislation which restricts imports purely on the basis of opinion is, in our view, doubtful legislation.

Mr. Macdonald (Rosedale): Opinion as to what the public interest is?

Mr. Dixon: Precisely.

Mr. Macdonald (Rosedale): Presumably there will be a difference of opinion of whether something is available or not.

Mr. Dixon: Yes; there will be the borderline case. As Mr. Corlett pointed out the bulk of the cases will be easily decidable, whether they are made here or not. There will be borderline cases, but they will be the exception rather than the rule. The criteria of public interest is what is concerning us primarily and it is difficult to offer you a guide line as you requested.

Mr. Macdonald (Rosedale): Are you suggesting, then, that "public interest" in the context in which it has been used here should be left out of account in this regard?

Mr. Dixon: I think it should; there is no valid reason for it to be in. Public interest can be as easily served by having imported machinery as having machinery manufactured by a Canadian manufacturer.

Mr. Macdonald (Rosedale): So it will be simply, is it available in Canada? Subject to the element of judgment involved, if it is available in Canada remission will not be available.

Mr. Dixon: Right.

Mr. Macdonald (Rosedale): If it is not available in Canada, you get the remission.

Mr. Dixon: Right.

Mr. Macdonald (Rosedale): Subject to the question of opinion.

Mr. Corlett: Here is the type of thing that worries the importer, Mr. Macdonald; I refer you to Mr. McKennirey's testimony before this Committee on January 17, page 285, where Mr. Clermont had inquired about the proper time to make an application for remission. Mr. McKennirey replied:

It would be preferable if he applied before, because if there were a possible Canadian source for the machinery he intended to buy, he could be advised of it, and might redirect his purchase, which would be in the interest of Canadian industry.

I think the Canadian machinery manufacturer, through his salesmen and technical experts, would know what was going on and the importer, when he reads this type of statement, might be inclined to say: "Well, is the Department of Industry becoming an agent for Canadian machinery manufacturers?" Why cannot the Canadian machinery manufacturer find out of his own volition that an industrial user wants a big piece of machinery and go after the business himself without intervention by the Department of Industry? This is the type of thing; it appears perhaps exaggerated, but who knows?

Mr. Macdonald (Rosedale): Thank you, Mr. Chairman.

● 1220

The Chairman: Next is Mr. Clermont, but perhaps he will yield for a supplementary question by Mr. More.

Mr. More (Regina City): No, thank you.

The Chairman: Mr. More has dropped his question.

[Translation]

You have the floor, Mr. Clermont.

Mr. Clermont: Mr. Chairman, the legal advisor of the group made some comments concerning the Review Board and he referred to a bill which is now in the Senate.

It was mentioned in this bill that the decision of the Minister of National Revenue was final. Had it been decided that a Review Board would exist before the Minister made a final decision?

[English]

Mr. Corlett: In answer to Mr. Clermont's question, I was referring to Bill C-72, which was an Act to amend the Customs Tariff and which appeared before the Parliament of Canada in 1961. As envisaged by the government then, "The decision of the Minister shall be final..."

Mr. Lamberti: That is the quantity. What year was that bill?

Mr. Corlett: The bill was introduced in the House of Commons on March 2, 1961 and it was late May or June by the time the bill got to the Senate.

Mr. Lamberti: It was on a narrow point. The restriction of appeal was on a narrow point; just the quantity determined if it was class or kind, as I recall it.

Mr. Corlett: But as the bill appeared in the House of Commons—in an endeavour to answer Mr. Clermont's question—the decision of the Minister whether adequate facilities existed in Canada for the production of some custom-made article such as a power generator, was to be final. In other words, there would be no subsequent appeal to the Tariff Board, or further on on a limited basis. This is what the Senate objected to and they returned the bill to the House of Commons with an amendment. They did not agree to the reference "The decision of the Minister shall be final..." They substituted for that the words:

Subject only to an appeal to the Tariff Board, the decision of which board shall be final, and in respect of which appeal the provisions of section 44 of the Customs Act shall apply mutatis mutandis, the Minister shall decide the whole matter

So the appeal I was mentioning would be subsequent to the Minister's decision, but would stop with the Tariff Board.

[Translation]

Mr. Clermont: Here is my question. In the bill about which we were speaking, did a board of appeal exist, as was suggested in the case of machinery and equipment? I am alluding to tariff item number 42700-1. Had the existence of a board of appeal been foreseen in that particular bill?

The Chairman: In other words, was there a preliminary stage before the Minister's final decision as contemplated by the machinery scheme?

Mr. Corlett: I am sorry, Mr. Chairman, I did not follow that.

The Chairman: Mr. Clermont is asking whether this bill, which was the subject of this controversy in the Senate, contemplated a preliminary stage of review before the Minister made a final decision as is contemplated by the proposed machinery program.

Mr. Corlett: No, Mr. Chairman; this is something that would have been decided by the departmental officers of the Department of National Revenue. There was no intermediate board as is contemplated here. The Minister would make his decision.

[Translation]

Mr. Clermont: In the present case, where we are discussing machinery and equipment, does your association believe that there exists no better protection?

You have an advisory board which is constituted of four senior officials representing four different departments. Moreover, it comprises a chairman who comes from the exterior. If the decision handed down by this Committee does not receive the approval of one or the other parties involved, it would be possible for an appeal to be brought before the Revision Board, which is composed of three members chosen from private industry and whose chairman should be a person in no way connected with industry. Are you not receiving the benefit of better protection thanks to the recommendation of the Minister of Industry with regard to Item 42700-1, i.e., in connection with availability of machinery and equipment in Canada?

[English]

Mr. Corlett: No, Mr. Clermont, we do not think so, because in the 1961 bill the Tariff Board would have the legal power to overrule the Minister up to a point. It is our contention that in the case of the advisory board contem-

plated in this new machinery deal and the review board in the machinery tariff item, since they are both being constituted under the authority of the Department of Industry Act they can be nothing more than advisory committees. They might advise against the Minister's following a certain course, but there is nothing in the law as I see it to prevent the Minister from going ahead with his original view as he wanted it.

• 1225

The Chairman: Before you go on, Mr. Corlett, if I may interrupt, Mr. More wants to bring something to our attention.

Mr. More (Regina City): Mr. Chairman, we are discussing a bill that never became law. I hope there is no misunderstanding. The bill of 1961 to which you referred died on the Order Paper. As I understand it you are arguing that the provisions in that bill are similar to the provisions that now will exist, that the Minister's decision will be final and there is nothing to overrule that decision in the proposed legislation. Is that the point you are trying to make?

Mr. Corlett: Mr. More, the point I was trying to make is that the same problem arose in 1961, although an attempt was made to remedy it in a somewhat different way. Custom-made articles of great value, machinery, power generators—I have seen reference to this in the debates in the House and the evidence before this Committee, but I was only attempting to answer one question that had been asked of me, that as the Senate agreed to it—I mean, I know and I hope I did not mislead the Committee into believing that this became law.

Mr. More (Regina City): That is the point I wanted to clear up.

Mr. Corlett: I was merely pointing out one method to which the Senate had agreed which was a method acceptable to the Canadian Importers' Association who had made representations at that time.

[Translation]

The Chairman: Perhaps we could return the floor to Mr. Clermont.

Mr. Clermont: I believe, Mr. Chairman, as one of the three representatives of the Association mentioned, that occasions might arise where the Revision Board would have the power to recommend an exemption from

tariffs, while the Minister could decide otherwise. In my opinion, a Minister would be in a rather delicate situation should he have to reverse the decision of the Advisory Board. Referring to page 14 in the French version of the Minister's statement to the House of Commons, I read the following:

"When the Machinery and Equipment Review Board is of the opinion that remission should be granted in any case on which the Advisory Board had recommended to the contrary, the Minister of Industry would normally accept the Review Board's findings and recommend remission to the Governor-in-Council."

[English]

• 1230

Mr. Corlett: Mr. Clermont, I think we would have to agree that a reasonable Minister would do just what you have suggested. But our point is that as the law would be administered, some future Minister in another decade or so might be much more unreasonable and could ignore his review and advisory boards and, as we see it, under the law there is nothing that could be done. The Minister's decision would be final.

[Translation]

Mr. Clermont: You are suggesting, if I do not misunderstand, that the regulations and criteria should be included in a bill. Is this true?

[English]

Mr. Corlett: This would be preferable, but I recognize that it might not be easy. In fact, it might be impossible, because first the committee is dealing with the Kennedy Round Agreement to which Canada is a party and Canada, I would think, would have to accept everything or reject it and, of course, we would not want the latter to happen.

[Translation]

Mr. Clermont: But even if it were included in a bill, Mr. Chairman, Parliament, which has supreme authority, could amend or modify this bill by substituting other regulations or further criteria.

The Chairman: Do you wish to ask a supplementary question?

Mr. Clermont: Yes, Mr. Chairman.

Mr. Noël: Mr. Chairman, we are dealing, I believe, with an exceptional case here. All

exceptional cases cannot be settled in one legislation, for it would then be an exceptional law. In my opinion, according to the proposal submitted by the Minister, the importer has sufficient protection because the obligation to go through the three phases exists. One must pass through the advisory board, through the revision board and finally through the Minister of Industry, who acts as arbiter. At each of these three phases, the Importers' Association and the importer himself has all the latitude required to reveal his point of view. In my opinion, a bill for exceptional cases would be exceedingly dangerous. We have to keep a certain normal and reasonable latitude; and I believe we have to depend on the goodwill of those who constitute these consulting boards to arrive at a conclusion because, and I repeat, we are dealing with exceptional cases. I do not think in law we can settle exceptional cases.

Mr. Lambert: Mr. Chairman, could I specify something? Does Mr. Noël believe that the representatives of importers can address their representations or submit their case to the board which actually constitutes the third phase?

Mr. Noël: Provisionally, yes.

Mr. Lambert: There is then the advisory board ...

Mr. Noël: And the revision board.

Mr. Lambert: They can make representations, is that not right? And then, if need be, they may seek the revision board. You are not going to tell me that the Cabinet, which has the last word on the revision of tariffs, will get direct representation from the Importers' Association.

Mr. Noël: No. The exemption would be recommended by the Governor in Council. You are dealing with a group of responsible persons.

Mr. Lambert: Yes, but you are speaking of the Cabinet and no one has the right to address anything directly to them.

Mr. Noël: Agreed. However, in going through these various stages, documentation will be compiled establishing the exact pretensions of the parties involved. Because these are exceptional cases, I believe that each one is analyzed in good faith through all this screening of the three or two instruments which will study them.

Mr. Lambert: As for the third stage, I fear that no other standard is used.

The Chairman: In fact, I think there are four stages, because representations can also be made to the Minister. I am thinking of the case of the Cabinet which creates difficulties as to the reception of representations. In fact, Mr. Lambert pointed out that it is impossible to make representations directly to the Minister of Industry. Perhaps we should ask our witness to comment on your statement.

• 1235

[English]

Do you have any comments to make on the views expressed by Mr. Noël?

Mr. Corlett: Mr. Noël made mention of the fact that what we were talking about represented exceptional cases. Now, we do not subscribe to that view because it was stated somewhere in evidence that under this new tariff item 42700-1 imports will total over a year about \$700 million. However, it is true that the Minister of Industry did mention in the House the various steps that could be taken. What concerns us is how active are these bodies going to be? Let me demonstrate my point by referring to statistics given by Mr. McKennirey to this Committee on January 17. At page 284 he indicated that the Department was receiving about 70 applications a day for remission, which would be approximately 350 cases a week, and he indicated on page 285 that the deputy ministers, who are members of the Advisory Board, are sitting about once a week. Assuming that the Advisory Board sat for ten hours a day, that would be 600 minutes, but if they had 350 applications to consider it seems reasonable to assume that the Board cannot give much consideration to each application for remission. In answer to a question by Mr. Wahn at the top of page 286 Mr. McKennirey admitted that in effect the Board would have to rely on the officers and experts of the Department of Industry. He said:

That is true. They would have to be guided by the findings of the officials.

But if the Board only meets once a week and they are running at the rate of about 350 applications a week, I cannot see how busy officers of the Government at the rank of deputy minister could give too much thought to this. They have to rely on the officers of the Department, which leads me to ask why

do we have the Board at all? Why not let the Minister make the decision initially?

[Translation]

Mr. Clermont: Would you not have reason to fear the arbitrary decision of the Minister if he did not have this advisory board and this revision board, because all cases will not go before the revision board. Some will be quite clear whether the answer is "yes" or "no", but otherwise the criterion established by the statement of the Minister with regard to availability will establish the criteria with regard to availability. On page 12 of the French version it says that it should be considered as necessary in Canada if a manufacturer wants to know if he can produce a machine, etcetera. I think Dr. Annis or the representatives of the Department of Trade and Commerce said that there would be many cases at this time where "yes" or "no" would be given as an answer and that would not come before the revision board or the advisory board.

[English]

Mr. Corlett: I think that is true, Mr. Clermont. Using Mr. McKennirey's statistics, he stated at page 284 that based on surveys they are running around 20,000 import entries per month which would come under this proposed tariff item 42700-1. He then subtracts these goods which have been ruled to be of a "class or kind made in Canada" because there would be no sense in such importers applying for a remission. There are certain group arrangements in connection with replacement parts; there is a so-called threshold of \$500. So, by the time you subtract all of these you then come down to about 2,700 cases per month, which presumably might be the subject of an application for remission. It may be that many of these 2,700 cases will be cases where the Department will make a decision quite easily and nobody could quarrel with the accuracy of their decision. But I suspect, without knowing precisely because I have no way of knowing, that a fair number of the 350 cases a week would be cases where good arguments could be presented either way. My point is that the Advisory Board, if it is only meeting once a week, cannot give serious consideration to that as a Board. You then mention, Mr. Clermont, the review board, the second agency suggested, and I refer you to Mr. McKennirey's statement on page 288:

The intention is that the review board would not be appointed at the outset. The expectation is there will be very few

appeals and therefore, I believe the Ministers are planning to appoint a review board on an ad hoc basis to deal with appeals as and when they arise, pending some experience with this.

In other words, the suggestion is that there will not be a single review board. The personnel will be changing.

[Translation]

Mr. Clermont: Mr. Chairman, in order to give others the opportunity to speak I am going to pass on to another question. I refer to page 6, clause 3. I would like to hear the opinions of the delegation with respect to this clause:

A number of the tariff concessions made by Canada involve total reductions of only 2½ per cent and it is proposed that the staging of the reductions be carried out by five annual reductions of one half of 1 per cent.

Would a member of the delegation suggest to the government that instead of one half of 1 per cent annually, the reduction start on January 1, 1972, of a total of 2½ per cent? Is it your opinion that the tariffs be reduced a complete 2½ per cent as of January 1, 1968?

[English]

Mr. Corlett: This is what we had in mind, Mr. Clermont, and this information comes to us from importers. It is a matter involving administrative convenience to the importer, and perhaps additional cost, if the total reduction is only going to be 2½ per cent over a four-year period involving five separate reductions of one-half of 1 per cent. In view of the statement made on June 29, the Government of Canada was empowered, if they wanted to, to make the reduction on January 1, 1968, and we are merely suggesting that these might be items where it would have been wise to have done it that way. It was merely a representation reflecting the thinking of certain importers on this particular point.

[Translation]

Mr. Clermont: This is my last question, Mr. Chairman. On page three of the brief of the Association I note this reference to the Canada Economic Council:

Canada has clearly reached a stage in its progress towards economic maturity which warrants a much closer look at the possible contributions which free trade

could make to productivity growth in various sectors of the economy.

• 1245

Do you think that our Canadian industry of equipment and machinery can meet foreign competition for equipment and machinery? I see in the brief which was distributed to us by the Machinery & Equipment Manufacturers' Association that their exports in 1966 amounted to \$15,912 and their sales on the domestic market amounted to \$294,669. I also note in their brief that this industry employs more than 15,000 people in Canada. If the tariff were lower in the United States for the export of our machinery and equipment produced in Canada, could our manufacturers face the competition which certain companies would give them on the American market? In fact, the cost of transportation weighs heavily in the establishment of the cost of production.

[English]

The Chairman: Gentlemen, would you care to comment on what Mr. Clermont has said? He is asking about the other side of the coin, so to speak, in the machinery field.

Mr. Carr: Mr. Chairman, I am sorry but I missed some of his question through the translation switch.

With respect to the latter part, we believe the Canadian community can compete through specialization and that they will be able to meet competition. We think that this is only one of the ways we can help some of the manufacturers to enlarge their possible customer line from the 20 million customer standpoint in Canada to whatever is available world-wide.

Mr. Clermont: Mr. Chairman, in the meantime if we allow our Canadian industry to improve their production and become automated, what will happen to the employee who later is unemployed? We have to keep in mind that the consumer is a worker as well, and if he does not work his purchases will be less. Mr. Chairman, I think you also mentioned that last week when you questioned some ideas which were presented by economists, and so on.

Mr. Dixon: Mr. Chairman, I would like to point out to Mr. Clermont that the government has readily seen that in the short term there will have to be a period of adjustment because of these lower tariffs and it has wisely made provision for such an adjustment. In

the long-term, however, the development of specialized industry in Canada, whether it be making machinery of the type that is not now made here, will automatically come forth with the implementation of these tariffs. There is every evidence within the medium and long-term that a reduction in tariffs will help industry in a country.

Mr. Clermont: Mr. Dixon, in the case of a parent company, would you not be afraid that if they can sell more easily on the Canadian market, they may not be as interested as before in having a Canadian plant?

Mr. Dixon: This is possible, but this gives an opportunity to existing Canadians to develop a plant here that will make the product which is being imported. This is the whole concept of wider international trade. It sharpens everybody's efficiency, creates specialization, develops markets overseas and keeps prices down. Taking the broad view, the whole concept is one of encouragement.

Mr. Clermont: I think everybody is interested in lower prices, but we are also interested in keeping people at work.

Mr. Dixon: Mr. Clermont, I could not agree more. If people are not working they cannot buy anything no matter how cheap it is, but the strength of power, the strengthening of an industry, the economics of recent years in our view, rightly believes that a developing industry at home can be made and improved by the import of overseas products. There is every evidence to support it.

Mr. Clermont: Yes, I was very surprised to find out that according to their export figures for 1966 the amount was only \$15 million.

Mr. Dixon: In machinery?

Mr. Clermont: Yes, machinery and equipment.

Mr. Dixon: Exports?

Mr. Clermont: Yes.

The Chairman: We will be hearing this afternoon from the Machinery & Equipment Manufacturers' Association of Canada and I would be surprised if they did not have a somewhat different point of view. Obviously, studies of this nature involve hearing from different interests and it is up to people like yourself to try to strike a reasonable balance in the interest of the public at large.

Mr. Clermont: Mr. Chairman, my main reason for asking the question was to urge them to do this because I am sure they have the experience as they are importing equipment and machinery.

The Chairman: I am not sure whether we should ask this group if a preponderance of their membership is in the machinery field.

Mr. Dixon: No, Mr. Chairman, our members cover every aspect of importing. We have a large number of machinery importing members who import every conceivable type and make of machine for every application, whether it be to make more machines or merely to make products.

Mr. Lambert: Mr. Chairman, I have a supplementary. I was wondering whether Mr. Dixon has ever heard of the non-tariff barriers that exist in the legislative form—in the larger markets of Canada—the Buy American Act?

Mr. Dixon: Yes.

Mr. Lambert: I do not care what you are doing with your tariff barriers, those are the things that kill you.

Mr. Dixon: Yes, but—

Mr. Lambert: We do not have those in Canada.

Mr. Dixon: No, we do not.

Mr. Lambert: No. It is, shall we say, an importer's heaven, outside of tariffs. Look at the U.K., France, Switzerland and various other countries, and at these non-tariff barriers, and you see why our machinery manufacturers cannot export, no matter what the tariffs levels are.

Mr. Dixon: That is true enough, Mr. Lambert. I certainly do not want to give the impression that there are no invisible barriers to trade here in Canada but there are not as many as in the instance you quoted and they do not come within the scope of this Committee. However, the interpretation of the dumping duty, and so on, can be an invisible barrier to trade and a very effective one indeed, believe me.

The Chairman: I have no other names on my list and perhaps before we adjourn I could just raise one or two points. First of all, have you gentlemen ever taken steps to urge the interests you represent? In other words, have you urged your clients or parent compa-

nies in other countries to bring about greater access for Canadian goods in these countries?

Mr. Dixon: Indeed, Mr. Chairman, we have members who manufacture in this country and who import finished parts into this country. They encourage the purchase of Canadian secondary materials for manufacturing in overseas countries, which literally come back here to Canada as part of the finished vehicle. We have had no success whatsoever with the Department of National Revenue in seeking an adjustment because of Canadian content—

The Chairman: That is not exactly what I meant. What I meant was this; has your association, through affiliated bodies, taken steps towards, for instance, the United States or the European Economic Community to provide greater access for Canadian manufactured goods in those markets?

Mr. Dixon: No, other than the general policy of trade. We recognize that we can make certain things better in Canada than anybody else, just as other people can make certain other things better than we can. We encourage international trade. We feel that it is the life blood of international trade and the community.

The Chairman: I wonder if I could also take a minute to get some information from not only you, gentlemen, but perhaps from Dr. Annis as well, to contrast the proposed system with respect to the duty-free import of machinery with the present class or kind system.

First of all, what is the statutory basis of the present system?

Dr. Annis: The statutory basis of the present system or, at any rate, the system which prevailed until January 1 of this year...

The Chairman: That is what I meant.

Dr. Annis: ...is set out in the customs tariff. There are or were 18 tariff items which are being struck out of the tariff by the Resolution before the Committee. Most of those items relating to machinery, other than some kinds that are dealt with on an *eo nomine* basis, contained double provisions providing for one rate of duty—a lower rate of duty—in respect of goods determined by the Department of National Revenue to be of a class or kind not made in Canada whose rate was normally, 7½ per cent and a higher rate of duty, usually 22½ per cent, in respect of

machinery ruled to be of a class or kind made in Canada. Those items disappear.

The Chairman: If I may just stop you there. In other words, the basic structure is the items in the Canadian Customs Tariff?

Dr. Annis: Yes, sir.

The Chairman: What criteria, if any, are there in this or in any other Canadian law with respect to definitions of "made" or "not made"?

Dr. Annis: There is no definition in the Customs Tariff items. There is in the preamble, if one might use that term, to the Customs Tariff a rule empowering the Governor in Council to determine to lay down criteria. Pursuant to that authority an Order in Council was passed many years ago which sets out the basic provision that goods shall not be deemed to be of a class or kind made in Canada unless Canadian production is sufficient to supply 10 per cent of the normal Canadian consumption.

The Chairman: But beyond that there is no detailed code of rules for defining—I am talking about statutory rules and not administrative decisions—what "made" or "not made" means?

Dr. Annis: You are correct, sir.

Mr. Corlett: That is quite correct, Mr. Chairman, but then, of course, as the class or kind criterion appears in these two tariff items referred to by Dr. Annis, this, of course, allowed the Tariff Board to have jurisdiction over this issue.

The Chairman: I was going to get to that, but it appeared to me there is no more of a precise definition in the statutes—any statute—for "made" or "not made" than there is for "public interest" or "availability". I am talking about the statute. There is no quarrel with that suggestion. Therefore, "made" or "not made" is subject, first of all, to administrative interpretation within the department before it gets to the Tariff Board, and until the Tariff Board comes into play the whole procedure is completely administrative. Your members go to the department where a study is made. It goes through various administrative stages and then, finally, the Tariff Board comes into play.

I would like to ask something with respect to the Tariff Board. Perhaps I should know this but it will serve to refresh our memories.

Are the decisions by the Tariff Board on the meaning of "made" or "not made" absolutely binding on the Minister or the Governor in Council? Perhaps Dr. Annis could answer my question.

Dr. Annis: The decisions of the Tariff Board are binding upon the Department of National Revenue which administers the customs tariff. Decisions of the Tariff Board are final with respect to questions of fact. Questions which are determined to be questions of law are subject to appeal to the Exchequer Court, and from the Exchequer Court they go to the Supreme Court of Canada.

The Chairman: I was interested in determining to what extent the rulings of the Tariff Board in this area are themselves merely advisory or such that the Minister or the Governor in Council is bound to follow them.

Mr. Corlett: The Tariff Board, of course, is a court of record and the Department of National Revenue would have to follow a decision of the Tariff Board on the matter of tariff classification or valuation.

The Chairman: The Tariff Board, of course, will still maintain its present or previously existing jurisdiction on whether an item will fall under 42700-1 or some other item?

Mr. Corlett: But they will lose, of course, this matter of class or kind determination because that has been eliminated from the new tariff item.

The Chairman: Yes, but is it not correct, as one of the Members has suggested, that Parliament at any time could change this system and if a similar system to that of the presently existing one were used to administer 42700 and it was written into a statute, would this not mean that a future Parliament, on the recommendation of another government, would or could change it? One Parliament cannot bind another.

Mr. Corlett: No.

The Chairman: There is no question about that.

Mr. Corlett: No. If there is some statutory provision I would certainly agree with that. However, coming back to the two boards—the Advisory Board and the Review Board—I have not seen the Orders in Council because as you know, they are published in a special issue of the *Canada Gazette*, which comes out

bi-monthly, but I would be very interested in knowing whether the Advisory Board was created by virtue of an Order in Council and if so, presumably it will be published in the *Canada Gazette*? I have not seen it to date.

The Chairman: I think you have raised a very interesting point, and one which we want to pursue. Mr. McKennirey may be able to tell us.

• 1300

Mr. McKennirey: Mr. Chairman, the Machinery and Equipment Advisory Board was established by Order in Council in December although I do not have the exact date. The Order in Council established the membership and the terms of reference of the board and it provided a definition of "availability" and an explanation of what is meant by "public interest".

The Chairman: I think it would be very helpful, Mr. McKennirey, to the Committee if you could provide us with copies of the Order in Council as soon as possible. We, of course, can get them from the usual source, the record-keeping offices, but perhaps you could get some copies made and have them for us this afternoon, because I am sure we will continue to refer to this matter as we continue with our proceedings.

Tell me, gentlemen, what percentage of the applications involving "class or kind" rulings end up with the Tariff Board?

Mr. Corlett: I anticipated that you might ask that question, Mr. Chairman.

The Chairman: I am glad I asked it, or you would have done your work for nothing.

Mr. Corlett: The Tariff Board, as you know, was revived in 1949. The present Board was created in 1931, but during the period of the war it was dormant. In 1949 the Board introduced another idea which I think certainly appealed to importers, they gave written reasons. From 1949 to date, give or take a few years, I calculate there were about 18 or 20 "class or kind" appeals where the matter in dispute was whether or not the imported item was dutiable under item 427 or 427A, which necessitated the Tariff Board making a decision on "class or kind".

The Chairman: Perhaps Dr. Annis could tell us approximately the volume of work done by the Department of National Revenue in this field?

Dr. Annis: I am afraid I could not, sir, but there is one other point on which I might ask a question of Mr. Corlett. I think the figure that he has given of 18 or 20 certainly sounds to me to be reasonable with respect to the "class or kind" cases which went to and were heard by the Tariff Board and resulted in decisions. The only point I would add is that at one stage, which ended about four years ago, with regard to one or two very important questions—one relating to power shovels and one, I think, relating to newsprint machines—appeals were carried from the Tariff Board to the Exchequer Court, and in one case to the Supreme Court. During that period a very large number of cases, or potential cases, were before the Board and were not heard individually. However, if one added those cases where the outcome depended upon the decision, as in the power shovel case you would in fact have a very much larger number of cases which in that sense at least were before the Board.

The Chairman: Were they in the power shovel category?

Dr. Annis: They were in the power shovel category in the sense that the outcome presumably would turn upon a determination of the same kind of issue. The primary issue was whether the Department of National Revenue, in making "class or kind" rulings, should deal with narrow classes or broader classes. This was the fundamental issue.

The Chairman: I really was trying to determine whether, as a matter of practice under the previously existing system, the Tariff Board entered into the average application for this type of determination or ruling, and, as a matter of fact, was this not done as an administrative procedure within the Department of National Revenue in 90 or 95 per cent of the cases? I gather from comments made here today and during our earlier hearings that under this procedure it will be basically administrative, as before. In this sense will you not be faced with the same situation you were faced with previously, although admittedly without the final safety valve of the Tariff Board which, in any event, came into play very seldom?

• 1305

In other words, if one of your members wants a "class or kind" ruling, you do not start out by filing a writ in some court and going on from there. You start with the Department of National Revenue, whose officers

determine these things in an administrative way—in sort of an *ad hoc* way—and in only very exceptional cases does the Tariff Board come into it.

Mr. Corlett: That is quite correct, Mr. Chairman. By far the greatest portion—you mentioned 90 per cent but I think it might even be higher—of the decisions made to date by the Department of National Revenue on these machinery items never got beyond the department.

The Chairman: I just wanted to get that clear inasmuch as some people who have just recently come to the study of this matter might think there had been a drastic change from what had gone on previously. They might have thought you fellows went immediately to some court-like board and it went through from there, where in actual fact it was just the reverse.

I have one final question. Do any of your members have any experience to report to date with respect to the machinery program?

Mr. Dixon: There is concern, and there is worry that there is going to be a delay. The chief lecturer in Toronto says that the Department of Industry is working very well with him and that they have no problems at all. This is not the view of all the members concerned.

The Chairman: Do you have any documented cases of difficulties to bring to our attention?

Mr. Dixon: No; I have not had a chance to do that, Mr. Chairman. But it is going to be a problem. There will be a backlog very shortly.

The Chairman: Are there any further questions, especially since we want to ask these witnesses to come back this afternoon? Mr. Gilbert?

Mr. Gilbert: I have just one short question.

The Chairman: Possibly we could remain for a moment.

Mr. Gilbert: It is on this argument that Canada still remains a high tariff country.

Mr. Corlett said that a significant number of items were not negotiated. He gave one short example of coffee with cream, or something like that. Could he give us a few more?

Mr. Corlett: Of the items that were not negotiated?

Mr. Gilbert: Yes, that is right. I suppose there are many agricultural products...

Mr. Corlett: No, sir. I have here a number of items which I picked at random, Mr. Chairman. The list is not exhaustive. These percentages are at the MFN level and presumably there might be a British preference. Tariff Item 800-1, canned pork, 25 per cent; I mentioned 4400-1, condensed coffee with milk, MFN 35 per cent; advertising and printed matter, Tariff Item 17800-1, a minimum MFN tariff of 25 per cent; marble, not otherwise provided for, under Tariff Item 31700-1, a GATT MFN rate of 25 per cent. There are about 35 or so that I picked at random.

Mr. Gray: I think Dr. Annis wishes to help to answer this question.

Dr. Annis: There is one comment that I might make. Much the same thing could be applied to the later items that were mentioned, or to some of them. I would think that the rates quoted by Mr. Corlett are correct. If I may comment on the one that was referred to twice, condensed coffee with milk, it is perfectly true that the MFN rate on that item is 35 per cent and that it was not changed in the Kennedy Round. Possibly it could, and should, have been included. One reason that it was not was that the item is so insignificant that it was not worth negotiating. No one was interested in paying for it.

• 1310

If one looks at the important coffee items the picture emerges quite differently. This is worth mentioning lest someone get the impression that the 35 per cent on condensed coffee with milk is representative. As I say, that is an insignificant item. But our coffee imports are very great indeed. There are two important items that were involved in the negotiations. One relates to green coffee, the imports of which are of the order of \$40 million odd. On that the present MFN rate is 2 cents a pound, which is equivalent to about 4.5 per cent. That item is going to free under the Kennedy Round. In fact, it has gone to free. It was done in one step as of January 1st.

There are other two coffee items that are important. The second one is roasted coffee; that is, as we would get it in a can, roasted. The present MFN rate is 4 cents a pound, which is equivalent to about 4.7 per cent *ad valorem*. On that item there is a 50 per cent cut. In other words, it goes from 4.7 to about 2.3.

The third important item relates to instant coffee. There is no change in that in the Kennedy Round, but the *ad valorem* equivalent of the present specific duty is in fact already very low, of the order of about 5 per cent. I have not got an exact figure here.

My point is that if one looks at the coffee item counts, the highest rate that will exist after the Kennedy Round comes fully into effect will be of the order of 5 per cent; and the two more important ones are either free or equivalent to 2.2 per cent.

My only point is that although the 35 per cent rate exists it is not representative. The rate counts are of the order of 0 to 5 per cent.

Mr. Corlett: I see Dr. Annis' point, but to re-establish my own credibility I refer him to Tariff Item 56830-1, gloves and mitts of all kinds—25 per cent.

Dr. Annis: Yes. There are some. I have no quarrel on that at all. In fact, you referred to the matter in your second statement and, I agree with what you said, Mr. Corlett.

The Chairman: Mr. Gilbert, have you any further questions?

Mr. Gilbert: It is getting very late, and I am just going to ask Dr. Annis a question.

The point that they raised about a spread of .5 per cent on items amounting to 2.5 per cent over a five-year period was a good one. Why has the government not taken the initiative and cleared them off all at once rather than spreading it over a five-year period?

The Chairman: Would you care to comment on that, or is that a policy matter which may create some difficulty for you?

Dr. Annis: It does involve policy, but I think that I can make a comment which will be within my proper field. Whether or not, on items of this sort, the reductions should be accelerated was a policy decision. It was a policy matter which was considered by the government. The Minister of Finance had a number of representations which he considered and the policy decisions are reflected in the resolutions as they were introduced into Parliament and as they are before this Committee.

In some cases the government did decide to move, in a single step, over a considerable area in this group of items. It decided to stage even these relatively small reductions of 2.5 percentage points, and although there may be some argument for moving more quickly

there are some rather important considerations which justify that decision. A good many of the items are affected, and the items which fall under this category are rather sensitive ones. A considerable number of them relate to important items in the textile and clothing field. I am quite sure that if Canadian reductions in this area on cotton fabrics, for example, on cotton clothing, on clothing and man-made fibres, had been reduced in a single step when there was no obligation to do so, and against the background of our trading partners staging their concessions, I am sure that the government would have been criticized for it and it seems to me that the critics would have been able to put forward some very strong argument.

Mr. Gilbert: Thank you, Dr. Annis.

The Chairman: Gentlemen, I think we have completed our questioning. I would like to thank the representatives of the Canadian Importers' Association for presenting to us a most stimulating point of view. I am sure it will help us in our review of this important matter. Thank you very much.

We are now adjourned until 3:30 this afternoon, or as soon as practical after the Orders of the Day, at which time we will hear from the Machinery and Equipment Manufacturers' Association of Canada.

• 1555

AFTERNOON SITTING

The Chairman: Gentlemen, I think that we can begin on an unofficial basis, at least for the moment. As you know, our witnesses this afternoon are here on behalf of the Machinery and Equipment Manufacturers' Association of Canada, and I believe we have with us today Mr. J. P. Finnigan, President of the Machinery and Equipment Manufacturers' Association of Canada, and he is accompanied by Mr. H. J. A. Chambers, Past President, Mr. G. D. Lewis, Vice-President, Mr. H. D. Allan, Vice-President, and Mr. Hugh Crombie, General Manager of the Association. I would invite Mr. Finnigan at this time to present the brief to us, and he will do so in the usual way, summarizing it briefly, following which we will ask for comments from the officials and then go on through a discussion and exchange of questions and comments. Mr. Finnigan?

Mr. Finnigan (President, Machinery and Equipment Manufacturers' Association of

Canada): Thank you, Mr. Chairman. My colleagues and I, although somewhat apprehensive, appreciate very much this opportunity to appear before your Committee. Circumstances obliged us to prepare and send you our brief somewhat hurriedly and without revision, and it may not be as clear as it could be, but I know we can rely on the questions which you and your Committee will ask to clear up any obscurity, and allow us to show things as they really are, and not how they are perhaps assumed to be in the machinery manufacturing industry in Canada. Copies of our brief have been provided in French as well as in English, although I regret there was some delay in delivering the French version.

To understand the machinery and equipment manufacturing industry in Canada it is important to know what it is composed of. With this in mind, I would like to enlarge a little on the introduction of our delegation that you so courteously performed. Mr. Chambers' company is a wholly-owned Canadian one; Mr. Lewis' company is an old established Canadian heavy machinery manufacturer now wholly-owned by another Canadian company which in turn is controlled by a large American company; and my own company is a wholly-owned subsidiary of a United States company. The three of us represent somewhat of a cross-section of our industry, and among us we hope to be able to comment on different aspects of your questions. The fourth member of our delegation, Mr. Crombie, is the general manager of the association, and is not connected with any one manufacturer.

Our brief states our opinions. Many of our members are both importers of machinery for re-sale as well as manufacturers of machinery in Canada, and we believe we are in an exceptional position to assess in this matter the relative advantages to the Canadian economy of manufacturing rather than importing machinery, and what the practical effect of the Kennedy Round and the Machinery Plan changes will mean. You suggested, sir, that I summarize the brief and this I can do, or I have prepared some notes as an aide-mémoire on certain parts of this matter that keep recurring for discussion, such as the way we see the Kennedy Round, the effect of the tariff on the price to industry of machinery, competition, duty on all importations, exports, specialization, and so forth, and we could discuss these or answer your questions.

• 1600

The Vice-Chairman: Thank you very much, Mr. Finnigan. Dr. Annis, are you willing to make any statement?

Dr. Annis: Actually not, Mr. Chairman; I do not think that there is anything in this on which it would be really useful for me to comment, unless and until some question of fact arises to which I might be able to contribute.

The Vice-Chairman: Any representative of the Trade Department?

Mr. Porter: I have no comment.

The Vice-Chairman: No comment? From the Department of Industry?

Mr. McKennirey: No comment, Mr. Chairman.

The Vice-Chairman: We will now open the meeting for questions.

Mr. Gilbert: Mr. Chairman, we came in late. Have you summarized your points? I do not know.

Mr. Finnigan: No I asked whether you would like us or wish us to deal with certain subjects such as the effect of the Kennedy Round as we see it. This was on the understanding that perhaps you had seen the brief, and it was not necessary to go over it again.

The Vice-Chairman: I am sorry. What are the intentions of the members of the Committee? Do you want to hear a summary of the brief?

Mr. Monteith: Yes, perhaps Mr. Finnigan could give us a summary of the brief.

The Vice-Chairman: Is that the intention of Committee members?

An hon. Member: Yes.

The Vice-Chairman: A summary of the brief, not the whole thing.

Mr. Finnigan: The first part of the brief tries to let you know that we are quite concerned about the Kennedy Round Tariff Agreements and the Machinery Plan that is attached to them, and their effect in the future on the machinery manufacturing industry of Canada. We make special mention that in introducing the legislation to the House the Minister mentioned that about 60 per cent of the machinery imports which will

be covered by 42700-1 were ruled as being of a class or kind not made in Canada. In 1966 the figure was closer to 65 per cent. It was stated that this pattern will remain relatively stable.

When you think of it, this is a rather extraordinary statement and one that probably would cause a great disturbance if it were made, say, in the Congress of the United States or in the Houses of Parliament in England. So, taking this statement and a further one saying that the average duty on machinery is not to exceed 9 per cent very briefly it appears to add up to the fact that we are not going to be any better off than we have been and we are, perhaps, not likely to have improved our situation at all.

The plan and the reduction in tariff have been presented as though they were really very favourable to industry in Canada but so far we are unable to see it. The content of the package does not match the gift wrapping.

• 1605

The Minister also indicated that the reductions in machinery tariffs, which are what concern us, were used to pay for the tariff concessions granted by our trading partners on other materials that do not concern our industry. Again Canada, very generously with regard to machinery, made the full tariff reduction as from January 1, 1968. The other parties to the Kennedy Round are going to make their reductions over a five-year period.

We have quite an active export committee in our Association and it was charged at the time all this was announced to look into these tariff reductions by other countries and find the benefits to us, the machinery manufacturers in Canada. They do say that after a few years here and there there might be some benefit whereas there is no doubt whatsoever of the benefits to importers of machinery to Canada as regards export we do not get here.

Now, when thinking about our industry surely the great and important point is to put the Canadian industry in some situation whereby its costs will improve. This really does not appear to have been accomplished relatively. You know, there is a misunderstanding sometimes about the tariff on machinery. Up to now when machinery has been declared class or kind made in Canada, the duty has been applied to 22½ per cent to imported material. What does not appear to be realized is that the Canadian manufacturer very often imports a great deal of material

and he immediately pays that same duty rate. Sometimes it is said that when machinery is made in Canada, why, the price goes up. The cost to the manufacturer in Canada, of course, has gone up.

As I pointed out earlier many of our companies are subsidiary companies. When we start making machinery in Canada we rely heavily on our parent company and at the beginning we import quite a great deal until we learn how to make these different parts, so in many cases we are paying practically the same amount of duty as the importer.

We eventually get into manufacturing but not everything is available in Canada and this is part of our cost. Some people think when duty is applied that the Canadian manufacturer somehow rather obtains a profit thereby, but this is not so. In both cases the government receives revenue, from the importer and a considerable amount from the manufacturer until the manufacturer in Canada reaches a point where prices can come down.

• 1610

It is also not generally known—speaking again for subsidiaries of United States concerns which comprise the largest part of our Association—that practically everything we manufacture and sell in Canada is sold at the same price as, and in some cases less than, it is sold in the United States. There is no consideration of duty in it at all. In other words, if they are selling machinery in the States for \$100 we sell it here for \$108 Canadian.

Now this, as I say, was not too well known even in the department concerned at the time we brought up this point some time ago. So we got our membership which made practically the same machines in Canada as they do in the United States to send both their United States price lists and their Canadian price lists to the department, and I think if you inquire you will find this is true.

The point I am talking around is that some of us have to import materials no matter how much manufacturing effort we achieve and we pay duty, as I said—the same duty as the imported machine pays say on parts but we also buy materials of different kinds and it so happens that this hits the purely Canadian manufacturer who is not a subsidiary a little harder than it hits the subsidiary. I will ask Mr. Chambers who is in this situation to carry the ball for a minute or two on that point.

Mr. H. J. A. Chambers (Past President, Machinery and Equipment Manufacturers' Association of Canada): Mr. Chairman and gentlemen, as Canadian manufacturers we have been concerned about the economies that it appears some people are of the opinion can immediately be made because the duty on machinery and equipment coming into Canada has been reduced. In our discussions with the Department of Industry we pointed out that there were a number of items of raw materials in which the duty was in excess of that applicable on the machines coming in. It was our hope that at least they would be brought down to the level that applied to the machines on which we would be using them.

You would be surprised how many of these items cost more to the Canadian manufacturer than the duty applicable on the machine itself.

In my own particular industry we have a number of items that carry 20 per cent duty, even though the finished product will carry 15 per cent under the Kennedy Round. It has been suggested that these duties are to be reduced under the Kennedy Round, and that this will be over a period of some four years. Twenty per cent items will be reduced, in some cases, to 17½ per cent, so that even at the end of four years we will still be at a disadvantage of 2½ per cent on that raw material.

In the meantime, the products, if imported, are coming into Canada simply on the application of 15 per cent or, in some cases, on the total remission of duty, on the basis that these products have been deemed either not available in Canada, or, because of the public interest, it seemed desirable to grant remission of duty.

Now, to the extent that this applies, our productivity—our cost of production—is impaired. We have instances of material that is not made in Canada, but because it is deemed to be of a class and kind of material that may be made in Canada a 20 per cent duty still applies.

• 1615

Again, those products in which that same material is used in the United States comes in here now under the Kennedy Round immediately at 15 per cent.

I do not know, Mr. Chairman, whether you wish me to add a little to what our chairman has said, but there was a terrific discussion this morning on what is known as the public interest.

Primarily, Mr. Chairman, we are dealing with Canada's nationhood. If we wish Canada to be a sovereign nation, if we wish to have independence, if we wish to have nationhood, there are certain things that we must have in Canada regardless of importers or any other considerations that may arise.

It happens that in our manual, which has recently been published, we appear to have been clever enough to define what we believe to be the public interest. It may be at some variance with what other representations to this Committee may offer, but we suggest that an increase in the volume of domestic manufacture of industrial machinery and equipment is in the public interest. We suggest, too, that it is in the public interest because it provides Canadian primary industry, particularly raw material producers, with a reliable domestic market. It also provides Canadian primary and secondary industries with an assured source of machinery and equipment.

Those of us who lived through the Second World War will realize that there were times when the sources of manufacturing equipment were at hazard because other nations needed them more than we did.

It also increases job opportunities. At the present time we provide work for some 15 million people, and under normal growth this number would have been much greater than presently applies.

Besides all this, in the public interest we feel that it contributes to the greater processing of Canadian raw materials in Canada, and, also—and I think this is important to all of us, Mr. Chairman—it strengthens Canada's ability to compete in export markets. If we have to depend entirely on the importation of the means to manufacture our raw materials into finished product we are at the mercy of any country that wishes us not to do this.

This, Mr. Chairman, is my feeling, as representing a Canadian company.

Mr. McLean (Charlotte): Did you say that you employ 50 million people?

The Vice-Chairman: Fifteen thousand.

Mr. Chambers: Fifteen thousand; I am sorry, Mr. Chairman.

[Translation]

The Vice-Chairman: One moment, Mr. Noël. Have you a comment to make before he finishes his remarks? After? Thank you.

Dr. Annis, would you care to make any comment?

Mr. Finnigan: I am afraid we have been enlarging rather than summarizing. The subject is very dear to our hearts.

• 1620

[English]

We have covered the first three matters of concern in our brief.

The fourth is the possible effect of the removal of the automatic application of anti-dumping duty. This is a very real problem to us. Fifth, we want to point out once again that in capital terms we are largely a United States subsidiary.

If you consider the disposition made in the Kennedy Round, that machinery available in Canada will pay 15 per cent and that machinery not available in Canada will pay no duty, imagine, if you can, the position of the manager of a subsidiary of a United States manufacturing company in Canada.

Most of us import what we do not make and sell it; and, of course, we make what we do make, and sell that, too. We are importing from our parent companies, largely, and selling. As our plants develop, as our skills develop and as the market develops, we may see something that we could make here. We suggest to our parent company that this should be done. This requires a capital investment and some organization, and so forth, and they naturally say: "All right, what advantages are there if we make this in Canada, and what disadvantages are there if we do not make it in Canada?" We reply: If we make it in Canada now, everything in that line that we import from you will pay 15 per cent duty. Perhaps we will have an advantageous position in the Canadian market".

Management, wherever it be in the United States or otherwise, says, "That is perfectly natural. But why? We are perfectly happy the way we are. We are shipping to Canada duty free. Why disturb something that suits us very well? However, if you made it in Canada, maybe you could supply something to us" Then you have to say: "Yes; and if we ship from Canada into the United States then you pay duty". They say: "No, no; this is not business".

Those are the points that concern us. We have listed the possible benefits to us. On certain materials that we import now, on which we pay 22½ per cent duty, we will now

pay 15 per cent. Some production machinery that we will import we will not pay any duty on at all, such as machine tools which are not available in Canada.

However, when you look at the relative advantages of these kinds of things, they are quite small. Our business is the making and selling of machinery. The amount of capital investment we make is, of course, very much smaller. We believe—we do not know yet, because we have no proof—that we are going to be able to import, also duty free, certain parts deemed to be not available in Canada.

Thirdly, as we mentioned earlier, there perhaps will be some export advantages for us when other countries get around to reducing their tariff rates. In 1966 our association had sales in the amount of \$311 million, of which \$50 million were export. We expect our domestic sales to suffer from some of these new dispositions. We think it is going to be quite difficult to increase our exports to compensate and to increase our sales in general.

• 1625

Maybe I could say something on export now. A large part of our export results from Canadian foreign aid plans under which machinery is brought in Canada, and this restricts purchasing to Canadian manufacturers. In the case of subsidiaries, a great number of us at times ship machines, for example, that parent companies may require to be shipped because their production rate has not been high enough. However, for one reason or another, subsidiaries are not exporting a large amount of Canadian machinery, and it is doubtful if they ever will. When people talk about exports in this context sometimes they mean exports to the world and sometimes they mean exports to the United States only. As far as exporting to the world is concerned, parent companies of most subsidiary machinery manufacturers have very highly efficient export departments in New York or like places. Parent companies have factories in different parts of the world and they have established plants in Canada largely for the Canadian market. As a result, it is not in the cards that there should be a great deal of export from Canada on the part of these companies.

As a result of negotiations regarding exports to the United States, 600 or 700 million dollars worth of machinery is going to come from the United States into Canada duty free. But would it not have been a tremendous thing if we had negotiated that an

equivalent amount of Canadian machinery would enter the United States duty free?

We hear talk of specializing in certain models in Canada; the parent companies would be more than interested if these could be shipped duty free into the United States. At the moment all machinery that goes into the United States pays duty. In spite of what has been said about the great export advantages for Canada as a result of the Kennedy Round, we do not see it affecting machinery very much.

Fourthly, the Kennedy Round was designed to stimulate world trade. It was thought that if world trade was stimulated other industries of Canada thereby would be stimulated and the machinery manufacturing industry would also be stimulated because they would require more machinery from us.

The remarks I have made concern the first two parts of our brief, the matters that concern us and the advantages that may exist for us in the new disposition.

The last part of our brief is taken up with recommendations. You already have heard a lot about the first recommendation, which revolves around the word "availability" and how it should be interpreted. It does not matter much how it is defined, what matters is how these things are handled in practice. There is a big advantage for us in that up to this time there was a requirement that we and others had to prove that we were producing at least 10 per cent of the domestic consumption of the article in order to be able to get it declared "made in Canada". As we understand it now, if a manufacturer manufactures a machine it is going to be deemed to be available in Canada. However, we are a little doubtful how it will be interpreted because we had such a difficult experience with "made" and "not made"; you might say hairline decisions were being made. If somebody made a slightly different size of machine yours was "made" but his was "not made", and this was most depressing to Canadian manufacturers. I know that some, having gone through the process at some period or other of trying to get something declared "made", were discouraged. They felt it was easier to either import from their parent companies or other suppliers, or to manufacture and not bother to get it declared "made" or "not made".

In respect of machinery produced in Canada we were asked in this form, to

attach in duplicate standard catalogue material describing the machine in detail

including range of sizes and capacities, model variations, physical qualities and operating characteristics; and indicating accessories, attachments, and other optional equipment supplied. Indicate clearly models and sizes made in Canada.

This to us—and we hope we are wrong—means we are right back to the hairline distinctions that were used, which will have a crippling effect on machinery manufacturers in Canada.

Mr. Monteith: Mr. Chairman, may I interrupt to ask a question?

The Vice-Chairman: Yes, Mr. Monteith.

Mr. Monteith: Mr. Finnigan, is the paper you are reading from dated subsequent to January 1, 1968?

Mr. Finnigan: This is dated September 11, 1967.

Mr. Monteith: Is that the form you were to answer in respect of "made" and "not made" after January 1, 1968?

Mr. Finnigan: Yes. How this availability will be decided is of tremendous concern to us. We phrase it here in these words: "be such and be maintained to the benefit of Canadian Industry generally and be based upon Canadian capabilities, both for the present and the future and not be allowed to become a series of controversial and *ad hoc* decisions".

As I mentioned, many of us are in the dual position of importer and manufacturer, and I can assure you that it was very easy to get a decision on "not made" and very difficult to get a decision on "made", and we hoped that "availability" will not be that way in the future.

• 1635

Our second point is:

...that we can hopefully look forward to the time when reasonable duties are imposed on all machinery and equipment coming into Canada.

Generally it is like throwing a bomb when this is mentioned. However, the duty paid on machinery is tax and tax should be spread around evenly. If it is required that an industry be supported—helped—then it can be subsidized. But the root cause of the fact that the machinery industry of Canada is still such

a weakling in a way—it is not what it should be—is this distinction between “made” and “not made” or “available” and “not available”, because there is an opportunity to get machinery imported duty free.

This gives rise to a whole lot of specialists, you might say, who look for ways to get around these rulings. If we can go back and imagine this had not been introduced, I feel sure there would be a flourishing machinery industry in Canada today and we could be talking about duty rates of 7 per cent or 8 per cent or something like that, but so long as this distinction exists I am afraid you will have these endless discussions and tribunals and people deciding this, that and the other and, in the meantime, the man who would manufacture gets discouraged.

Our next recommendation was:

That action be directed to the discontinuation of “end-use” products and other tariff concessions.

That is really much the same thing as before. If there were a blanket duty on machinery we would be able to get somewhere.

Fourth:

That the maintenance by our trading partners of artificial barriers which frustrate the benefits anticipated from the Kennedy Round be deemed unacceptable to Canada.

As was mentioned this morning, there are other ways and means of keeping imported products out of a country, or providing incentives to exporting into our country, that do not appear on the surface. There are quite a lot of those and in spite of what was said this morning, I do not think we enjoy any of those. We would rather not have them, but we do not want other people to have them, either.

Our fifth recommendation is:

That the tariffs on material and finished products be reduced to a level not in excess of that applicable on the products in which they can be used.

I think Mr. Chambers has covered this quite fully.

Our sixth recommendation is:

That Government policies will be maintained which will support and extend the machinery manufacturing industry in Canada including a healthy industrial climate with the objective of

contributing towards the maintenance of a Canadian Sovereignty.

Personally, I feel very deeply that Canada should have a proper and adequate machinery industry and also other comparable secondary industries.

I spent 20 years in Latin America and I travelled in many of the countries and lived there, and I saw the effect on the economy of those who had opted for or had been persuaded to become raw material producers and had no secondary industry. I was worried about them then, and I am worried about them now. It just does not do to dedicate yourself entirely to producing raw materials; you end up with abandoned camps and rusty iron jungles, so far as I can see.

It is bad in human terms as well as economic terms. What a country needs, I believe, is a balanced economy and a country like ours should be able to provide the basic machinery that it needs.

Seven:

That “anti-dumping” regulations be administered to inhibit possible “dumping”.

What concerns us here is the prevention of dumping. We really are not concerned about fines being applied to people after machinery has been dumped. We have a certain reduction here but it is not, of course, comparable to that of our nearest neighbour, the United States. There are many industrial giants in the United States; even one company can sell several times what all our industry in Canada makes and sells.

When you consider that, you can realize that their end of production run from machines they want to get rid of, because they have a new model, if pushed into this country, could stop production on our part for a year or two. We have to keep on producing all the time; otherwise our costs go up and so on.

So our concern is to prevent dumping. The anti-dumping law that we have had up to now with its automatic provision we found very good, in that it was respected. There were not many cases of actual anti-dumping being applied to machinery imports and this is fine. This proved that the law was working.

We have read the Code backwards and forwards and we cannot see that it will really be possible to do very much to prevent dumping.

I am going to read from a circular put out by an association very like our own in another

er country regarding the Kennedy Round and the "anti-dumping". It says to their own manufacturers of machinery...

Mr. More (Regina City): Will you identify the source of the circular?

Mr. Finnigan: Need I?

Mr. More (Regina City): It would be interesting to the Committee because we have to look at what...

Mr. Finnigan: Well, it is the United States.

Further, to the extent that companies have been hesitant to make price reductions to maintain or improve their position in a particular foreign market for fear of dumping charges, they may now have more freedom to do so since penalties may not be invoked unless the foreign authorities find evidence of material injury as well as a finding of sales under the domestic price.

This could be interpreted as a hint to go ahead and dump.

Mr. More (Regina City): Is that a government release?

Mr. Finnigan: No, this is an association like our own.

Mr. Monteith: That is their interpretation of this new anti-dumping?

Mr. Finnigan: Yes; it is what they say to their members.

• 1645

Then our eighth recommendation for your consideration was that it might be possible to consider the introduction of special depreciation allowances on Canadian-made equipment. Mr. Chambers, would you like to speak to that? I think you are more qualified than I.

Mr. Chambers: Mr. Chairman, it is only that it is a point that has been raised several times. It is considered quite an effective device, but there appear to be difficulties in the administration inhibiting its adoption. That is really the only comment I can make. We, as an association, cannot see any particular difficulty but it appears to present one to the administration in the Department of National Revenue in the matter of allowing a special depreciation for Canadian-made products or equipment.

Mr. Finnigan: The ninth recommendation was:

That devices be established for assisting Canadian machinery manufacturers to become, and be enabled to maintain themselves comparatively competitive.

The Vice-Chairman: Have you finished Mr. Finnigan?

Mr. Finnigan: Yes, Mr. Chairman.

The Vice-Chairman: Before I give the floor to Mr. Monteith, have Dr. Annis or others from either the Department of Trade and Commerce or the Department of Industry any comments on the remarks presented to this Committee by Mr. Finnigan and Mr. Chambers?

Dr. Annis: I hardly know, Mr. Chairman, whether it is appropriate that I do so but I did before. Well, I will not impose very long, but there are one or two comments I might make.

First, concerning Mr. Finnigan's initial point, he pointed out quite correctly that a very high proportion of the machinery used in Canada is imported, and that of the machinery that is imported quite a large part has in the past been ruled to be a class or kind not made in Canada. Consequently it has qualified for the lower rate of duty at 7½ per cent and presumably under the new arrangement would be found to be not available in Canada and would qualify for free entry.

Concerning that point my only comment is that this is a situation I do not think is unique to Canada. With the increasing sophistication of machinery, specialization in the manufacture of the newer and very sophisticated types of machine is becoming normal, so that even relatively highly-developed industrial countries such as the United Kingdom import a very high proportion of their machinery, even though they have a well-developed machinery industry themselves.

For a long period the United Kingdom made special provisions for exempting from import duties machinery not available from United Kingdom producers. They considered this, I think, to be in their national interest as a means of helping, if not to reduce production costs, at least to hold down or reduce the rate increase in these costs. That is all I wanted to say on this.

The Vice-Chairman: Dr. Annis, what about the remarks made on anti-dumping?

Dr. Annis: I really had not planned to say anything on anti-dumping and it seems to me that the Committee had quite a good discussion on this on a previous occasion. While unfortunately the machinery and equipment people were not here, I do not think I would want to try to repeat anything that was said in that connection.

The Vice-Chairman: Thank you, Dr. Annis. Mr. Porter, do you have any comments?

• 1650

Mr. A. R. Porter (Assistant Chief, General Relations Division and International Organizations Division, Department of Trade and Commerce): No, I have nothing to add to this.

Mr. McKennirey: Mr. Chairman, I have a comment to make about the question of the distribution of machinery imports between those "made" and "not made". Sometimes people confuse the reference to the value of importation with the matter of total domestic consumption. For example, in the United States, which is much more self-sufficient in machinery than we are, it is very likely that the importation of machinery breaks down 80 per cent "not made U.S.A." and 20 per cent "made U.S.A." The more self-sufficient the country becomes in machinery, of course, the higher the importation in the "not made" category, because it is a percentage of the total imports. I think sometimes this gets a little lost.

On the matter of dumping, one useful point to note is that under the old arrangement the automatic dumping applied only if the item were ruled to be of a class or kind made in Canada, so that you had to have that status before you were protected by the dumping provisions. Under the new arrangement—at least for the current six months—the rate is 15 per cent; there is no longer the "made"—"not made" distinction so the dumping applies without the "made in Canada test". Is that not right?

Dr. Annis: No, it does not; not for six months, but later on it would. Later on it would be applied in accordance with the new legislation which has not yet been introduced.

Mr. Finnigan: May I ask Mr. McKennirey a question?

The Vice-Chairman: Yes.

Mr. Finnigan: Are these imports of "not made" machinery to the United States duty free?

Mr. McKennirey: I was just citing that as an example; I do not really know about that, Mr. Finnigan. But the point I was making is that when we start talking about 60 to 40, or 65 to 35, we are not talking about domestic consumption, but about importation. The more self-sufficient the country happens to be in machinery, the more it will follow that its importation of machinery will be largely in the "not made" category, so that the percentage would look...

Mr. Finnigan: However, being dutiable into the United States provides an incentive to the United States manufacturer at least to look into the possibility of making it there. Here it will come in duty free.

The Vice-Chairman: I have now before me the names of Mr. Noël and Mr. Monteith. As Mr. Noël is absent for the time being, I will give the floor to Mr. Monteith.

Mr. Monteith: I have just two or three points, Mr. Chairman, on which I would like to question Mr. Finnigan. I think you made the statement, sir, that export to the world by United States subsidiaries in Canada was just not in the cards. Now, I am assuming you are referring only to the fact that probably a United States parent is more efficiently set up, has a larger production, has had an export market and will continue to use that export market itself. However, there is no understanding, or anything like that, that you will not attempt to export?

Mr. Finnigan: There is no understanding but in order to export one must work at it. That means sending men abroad, and having agents, distributors, and so forth. I do not see this happening in the machinery industry. Other industry in Canada does export, of course, but in the machinery industry there does not appear to be any incentive to the parent company to export from Canada. At times they export, say, from England into Canada and will do so on an increasing scale in the future, because the duty into Canada will only be 2½ per cent on something made in Canada, but what advantages does Canada offer to somebody selling somewhere else?

• 1655

Mr. Monteith: I was really just asking a very simple question; there is no agreement between the parent and subsidiary that you should not attempt to export?

Mr. Finnigan: No, sir.

Mr. Monteith: You said also that the "made" or "not made" definitions seem to be back where they were before and you read an excerpt from a statement issued by a similar association in the United States indicating that possibly there might be a better opportunity for end of the season, overruns, and this sort of thing, to have them shipped into Canada or other countries. Apparently this is something about which you are frightened either because of this statement that has been produced or because of the different wording of the anti-dumping regulations?

Mr. Finnigan: The new regulations are not published yet. What we have seen is the international code, but in reading the code we do not see how legislation can be written which will have anything like the force of the present legislation, which says that an article must be declared for duty purposes at its value in the domestic market, duty must be paid on that value and it must not be sold in this market at less than duty-paid value. This is a very effective deterrent to dumping.

Mr. Chambers: Mr. Chairman, I wonder if I might comment on that. Being practical about it, we have assumed that those countries that are objecting to Canada's present anti-dumping legislation wish to dump and find the obstacles before them prevent them from so doing. Therefore, we are saying that we are opening the door to accommodate people who really want to dump.

The Chairman: Are you including in this the representatives of British industry who have complained about our dumping legislation?

Mr. Chambers: Oh, yes, definitely.

The Chairman: This is the basic aim of our British trading partners in the Canadian market?

Mr. Chambers: To get rid of their surplus. We do not feel there is any doubt about that.

Mr. Monteith: You mentioned, Mr. Finnigan, that you were back where you were. In other words, you had hoped that there would be an improvement because of the revised anti-dumping legislation rather than just a continuation of the previous way, but actually, if I understood Mr. Chambers, you are frightened that it is going to be worse than it was?

Mr. Finnigan: Definitely.

Mr. Monteith: You feel the anti-dumping legislation will not be as prohibitive, not be as protective to Canadian industry?

Mr. Finnigan: Yes.

Mr. Monteith: You also mentioned in passing that if we had had no—I think this was the intimation, at any rate—relief for "not made in Canada" machines coming in here, or if there had been a set duty on all machinery coming into Canada, you thought that duty might have been down to 7 or 8 per cent. Would you be in favour of not having a "not made in Canada" relief from duty for goods coming into Canada?

Mr. Finnigan: At the moment they have the relief, they are duty free when "not made". We are of the opinion that all machinery should pay duty and should have paid duty in the past. In such a case, I believe we would not be talking today about duty rates of 15, 17½ or whatever it was...

• 1700

Mr. Monteith: They would all be lower.

Mr. Finnigan: Yes, because we have reached the point where the machinery we are manufacturing here in Canada is being sold really without any, you might say, duty content in it. In other words, we are selling at the same price as our friends do in the United States.

Mr. Monteith: Yes. If you were to have an across-the-board rate of 7 or 8 per cent—for the sake of argument—on all machinery coming into Canada, then you would still be selling at approximately the same price as your United States counterpart or competitor?

Mr. Finnigan: Yes, on the products I mentioned as they would be under the duty-paid rate of United States machines, but if we started to make other machines, I do not know. When we start out to make new machinery, of course, our costs are high.

Mr. Chambers: Concomitant with that, I think the materials used should not attract any more duty than the product itself.

Mr. Monteith: I think this comes back to a statement you were dealing with, Mr. Chambers. I understood you to say that because of the duty on parts you bring in—to a part content of a machine that you make of 20 per cent or whatever it may be—that actually your machine is then costed at the same

figure or in direct competition with a machine that would come in finished at 15 per cent?

Mr. Chambers: Right.

Mr. Monteith: And did you also make the point that because of the sudden reduction of the complete distance as of January 1, 1968—in the parts there was only a gradual reduction—you are going to suffer as a consequence of this?

Mr. Chambers: Yes, but I think we can put it this way, Mr. Chairman. Previously we had a protection of 22½ per cent which now is down to 15 per cent, therefore obviously the competition from the United States, of which there is a great deal, is more keen than it was. But on top of that, it is aggravated by the fact that the material we use is still up at the levels, or practically at the same levels, as they were before...

Mr. Monteith: And is only coming down gradually?

Mr. Chambers: ...and are not coming down as much.

Mr. Monteith: Yes. That is all for the moment, Mr. Chairman.

The Chairman: Before turning to the next member for his questions, I presume the Committee is in agreement with my suggestion that we should have a session this evening to hear Messrs. Richard and Hooper since it is unlikely, judging by the list before me, that we will be able to complete our consideration of the Machinery & Equipment Manufacturers' Association of Canada brief in time to give adequate consideration to Messrs. Hooper and Richard's presentation?

Mr. Macdonald (Rosedale): Mr. Chairman, I regret that I cannot be here this evening. I wanted to question Messrs. Hooper and Richard.

The Chairman: The alternative, of course, is to have a meeting tomorrow afternoon after Orders of the Day. I think we must apologize to Messrs. Hooper and Richard. We may well be able to begin considering their views today, but I suppose Mr. Richard, at least, accepts this as part of the exigencies of appearing as counsel before various types of bodies, juridical and non-juridical. What is the consensus of the Committee on meeting tonight?

Mr. Noël: Mr. Chairman, I cannot be here tonight or tomorrow.

The Chairman: This is the type of problem that all of us have to face. Which does the Committee consider preferable this evening or tomorrow afternoon? I have brought this up now because the Clerk has to arrange for the sending out of the official notices. Perhaps we should also inquire whether Messrs. Richard and Hooper can come tomorrow afternoon as easily as this evening.

Mr. John Richard (Gowling, MacTavish, Osborne & Henderson): We are in the hands of the Committee.

The Chairman: Thank you.

Mr. More (Regina City): I suggest tomorrow afternoon.

The Chairman: Mr. More suggests tomorrow afternoon. Does this meet with the satisfaction of the Committee?

Some hon. Members: Agreed.

The Chairman: We will meet tomorrow afternoon after Orders of the Day. Excuse me, gentlemen, for interrupting our discussion.

Our next questioner will be Mr. McLean, followed by Mr. Clermont and then Mr. Macdonald.

[Translation]

Mr. Clermont: Mr. Chairman, I believe, you should give the floor to Mr. Noël.

[English]

• 1705

Mr. Noël: Mr. Chairman, Mr. Monteith asked the question I wanted to ask concerning Item No. 5, as specified by Mr. Chambers, dealing with the parts they import which cost more than the whole machinery. I now have the answer, thank you.

The Chairman: Fine, this will be noted. I now recognize Mr. McLean, and I have also added Mr. Gilbert and Mr. Cameron to my list.

Mr. McLean (Charlotte): Mr. Chairman, it is stated here that the machinery sales are \$294,669,000. Are any sales in this amount free-of-duty imports from the United States?

Mr. Finnigan: No.

Mr. McLean (Charlotte): This is all Canadian-made?

Mr. Finnigan: This is all manufactured in Canada.

Mr. McLean (Charlotte): All made in Canada, \$294 million. But you do handle machinery from the States?

Mr. Finnigan: Oh, yes, but it is not included in that.

Mr. McLean (Charlotte): And you say in No. 9:

That devices be established for assisting Canadian machinery manufacturers to become, and be enabled to maintain themselves comparatively competitive.

As 60 per cent of the machinery manufacturers are owned in the United States does this mean that you want to make them competitive with themselves?

Mr. Finnigan: I am afraid I did not hear the first part of your question.

Mr. McLean (Charlotte): You say you want some means by which to make the Canadian machinery manufacturers competitive. Do you mean by that the American-owned, or the Canadian-owned, or both, competitive? If the United States companies own 60 per cent do you want to have the Canadian government do something to make them competitive with their head offices?

Mr. Finnigan: An individual company manufacturing in Canada has to sell its manufactured equipment. To be able to sell successfully it has to have a reasonable cost. Whom do they sell against? They have competitors, and they must be competitive with them. In one line of machinery that my Company happens to manufacture here we have 11 competitors in Canada. I thought this question might arise. I have a note here:

We have a total of 11 active principal competitors, all selling in the Canadian market.

Mr. McLean (Charlotte): Are these American competitors?

Mr. Finnigan: Four of these, manufacturing in Canada, are all subsidiaries of United States concerns. One, a U.S. subsidiary, is importing from its factory in England. Three of them are companies in the Commonwealth. Three others are from most favoured nation countries apart from the United States. Therefore, to be able to sell we have to produce a good product at a good price to compete with the world.

Mr. McLean (Charlotte): Yes; but 60 per cent of the machinery manufacturers, according to this, are owned in the United States. Let us suppose that this trend continues and that they own 100 per cent. This would not be any inducement to them. They could make parts in the United States and ship them here. It would not make any difference, would it?

Mr. Finnigan: No. It would make a difference to Canada.

Mr. McLean (Charlotte): It would make a difference in price. It would not make any difference to the manufacturers. They would have the market.

Mr. Finnigan: Yes.

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Mr. McLean (Charlotte): They could go to work and ship the parts into Canada and assemble the machines here, and that would be it. Therefore, it is to the advantage of Canada to keep some Canadian-owned machinery in business.

Mr. Lambert: The witness's answer here is important. Unfortunately, the microphone will not record a nod of the head.

The Chairman: Would you please say yes or no, or whatever your nod was intended to convey.

Mr. Finnigan: May I have Mr. Lewis answer this?

Mr. Lewis: Mr. Chairman, I think Mr. McLean is talking about relative competitiveness. As a result of the changes in tariff on the Kennedy Round the relative prices are going down, largely set by the 2.5 per cent tariff against English goods. However, the Canadian manufacturer's costs are going up because, generally, the tariffs on the materials that he imports are staying high—higher than the duty on the imported machine. That is the principal problem.

Mr. McLean (Charlotte): But you get rebates on your exports?

Mr. Lewis: You have to be strong in the domestic market before you can get strength in the export market.

Mr. McLean (Charlotte): I do not know...

Mr. More (Regina City): Mr. Chairman, if you will permit a supplementary.

Mr. Finnigan, your evidence to the Committee indicates that this industry is largely subsidiary; that it is built for the domestic market; and that exports are not really a factor and will not be in the foreseeable future. You are not gearing yourself in any way, shape or form to enter the export market? You are built for the domestic market? Is that not right?

Mr. Finnigan: Yes; I...

Mr. More (Regina City): I do not want to put words in your mouth, but that is what I gathered from your evidence.

Mr. Finnigan: I would like to enlarge on that a little. I explained the composition of our delegation. My company is a wholly-owned subsidiary, and this has been so in most of my experience. It also applies to the bulk of the machinery manufacturing industry. What you said is true, but not of, say, Mr. Chambers. He would love to export. Mr. Lewis is also in a category slightly different from mine.

Mr. More (Regina City): I was going to ask Mr. Chambers if there is any incentive for him to develop an export business and, as a result, increase his domestic operation and create better value in the domestic market?

Mr. Chambers: Oh, yes, definitely. As you will appreciate, we are suffering from the competition, and particularly that from the United States. There are two things that would assist us to be as competitive as the Americans, particularly if you are a Canadian company. Rationalization has been talked about. You cannot rationalize with somebody with whom you are not associated. Therefore, the only answer to that problem is for the United States to be in a position to compete with us in this country provided we are in a position to compete with them. We, therefore, advocate very strongly that in any future bargaining we do not make any reductions in tariff for people who will not meet us on an equal basis.

The second thing, of course, is that in the United States and in other countries of the world tremendous sums of government money are being spent to assist companies in research and development. We are advocating that that and other means be sought to make Canadian industry as competitive as the British and the American. This is why we advocate that the economics of this country be improved by making Canadian companies as competitive as those of the United States

—particularly the latter because they are closer to us competitively—and of Britain which now has this very nominal duty applicable on the goods coming from there.

Mr. More (Regina City): I waive any further questions. It was Dr. McLean's turn.

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Mr. McLean (Charlotte): In your brief you seem to wonder why the future of the machinery market is going to be stable, and that you get only 35 per cent. Is the forecast that there will be no increase in your market in Canada not due to the fact that the American companies have their head offices in the United States and have bought up all these subsidiaries in Canada? If they continue buying there will be no increase in Canada's business. It will just go to the United States.

Mr. Finnigan: If the regulations and duties are such as to suit manufacture in Canada they will do so. Machinery companies now are internationally minded. Practically all of them have four or five factories in different parts of the world. They are in Canada because there has been duty-protection and an anti-dumping law. There has also been, and still is, Commonwealth preference so that some goods can be made here and shipped advantageously to other parts of the Commonwealth. People manufacture here either because there is an advantage in doing so or because they are at a disadvantage if they do not.

Mr. McLean (Charlotte): You represent the viewpoint of a United States subsidiary but you do not expect expansion in the machinery market here in Canada.

Mr. Finnigan: That is true. Under these new dispositions, as we see them today, unless they are interpreted differently, I cannot see the advantages to increasing manufactures here.

The Chairman: Advantages for whom?

Mr. Finnigan: For whomever owns the company. We are talking about these U.S. parents who have factories in Canada; they would love to have them working, producing things and making profits. However, there is no particular reason for doing so, particularly if they can make the same thing in England and ship it in here for 2½ per cent when they cannot ship from their U.S. plant because the price is high.

Mr. McLean (Charlotte): They are governed merely by where their profit lies.

Mr. Finnigan: Of course, yes.

Mr. Clermont: Mr. Chairman, I would like to ask a few questions in French.

[Translation]

This is my first question, Mr. Chairman. I do not know if I completely understood the comments of Mr. Finnigan or those of Mr. Chambers when they said that machinery and equipment were available in Canada. They used the expressions "if available" or "in the public interest". If I refer to the report which the Minister of Industry submitted to the House of Commons last December, I read the following:

Meanings of the word *availability*. Two criteria shall serve as guide to the Advisory Board in the examination of exemption claims. First, he shall inquire whether the machine which he is importing is made of Canadian products, and secondly, he shall assure himself that it is in the public interest that such an exemption be granted.

Therefore, if I properly understood Mr. Finnigan's and Mr. Chambers' explanations, one or the other would have used the expression "that the machine be available" or the expression "in the public interest". Is this really what your comment wished to signify?

[English]

Mr. Chambers: Mr. Chairman, although I am not quite sure I completely understand the question reference has been made to British practice, and when we deal with "availability" from that point of view it means it is possible to obtain that machine in the country and that delivery and price within limits have no particular significance. If we use the term "made in the country" we are immediately inhibiting the chance of Canada making a machine. For example, there are a number of special purpose machine tools made for the automotive industry.

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Mr. Clermont: Mr. Chairman, my question was this: In the minds of the witnesses is it only a question of whether the machine was available in Canada or is it also a question of whether or not it is in the public interest? Mr. Drury stated, in the House of Commons that both requirements are necessary, and that was the reason for my question.

Mr. Chambers: I think, we, as an association, would feel that both of those criteria should apply if we are going to use both, otherwise availability probably is more important, from the experiences we have had previously, than public interest because it seems to relate to ad hoc decisions, not necessarily in a broad sweep.

Mr. Clermont: Mr. Chairman, Recommendation number (2) on page 3, states:

(2) We trust that we can hopefully look forward to the time when reasonable duties are imposed on all machinery and equipment coming into Canada.

I would like to have the witnesses' remarks on one of the reports of the Economic Council of Canada, that Canadian industry should prepare now or in the near future to adapt themselves to face more competition from outside.

Mr. Chambers: Mr. Chairman, because we, as an association think that Canada is still a developing country, not in any sense a developed country such as some of the European countries and certainly not as developed as the United States, we feel reasonable duties should be broadly applied. Why do we say this? We say it because we have lived through a period during which controversy has arisen as to whether or not a thing is of a class or kind made in Canada, and every opportunity has been taken by an importer to defend the point that it was not available or was not made in Canada. The manufacturer in Canada has had to prove time and time again that he was making this machine in Canada, whereas if you had an across-the-board duty this whole controversy would be immediately erased.

The Chairman: At the expense of the Canadian taxpayer?

Mr. Chambers: No, not at the expense of the Canadian taxpayer, Mr. Chairman, because you are applying taxes one place that you will not need elsewhere.

Mr. Clermont: At the present time and for the past few years has such equipment as knee-type milling shapers and planers been made in Canada on a regular production basis by members of your association or only by special order?

Mr. Chambers: Mr. Chairman, if I may speak to that, milling machines and shapers were made in this country by a number of

Canadian companies and, because of the peculiar interpretation placed on machine tools coming into this country, it was deemed uneconomic to continue their production. For example, we have had the case of lathes, where the definition of a lathe was based upon swing. If the swing was deemed to be 10 inches then it may be deemed to be of a class or kind made in Canada. If, however, it happened to be 10½ inches, it was deemed to be of a class or kind not made in Canada, and these criteria of "made" and "not made" have impaired the well-being of the Canadian machine tool industry. On top of that I might add, Mr. Chairman, that if an automotive company can prove that a machine is not available in Canada it gets duty drawback. Consequently a machine tool builder in this country can be under quite considerable pressure at different times to take the position that, he does not make the machine, otherwise he makes a rather unfriendly customer.

Mr. Clermont: Can you name a few machine tools that have been made in Canada since 1961?

Mr. Chambers: A great many special-purpose machine tools are made in Canada, as well as some small drills.

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Mr. Clermont: On the question of availability, are machine tool manufactures known to members of the trade by the same name or do countries such as Italy, France and the United States use a different name? Take, for instance, a toolroom lathe; is it known by the same name in all the countries I have mentioned.

Mr. Chambers: A toolroom lathe would be known as a toolroom lathe, but some lathe makers might stretch their imagination a little and consider their lathe also to be a toolroom lathe, but it may not be quite as precise in its operation.

Mr. Clermont: My last question concerns the availability. For instance, if the name of the manufacturer, the manufacturer's name of the machine and the model number were made known to you in connection with remission of customs duty, would you know the kind of machine that has been found to be not available from production in Canada?

Mr. Chambers: To a large extent, yes.

Mr. Clermont: Do you feel that you are entitled to that information?

Mr. Chambers: Entitled to it?

Mr. Clermont: Yes.

Mr. Chambers: Oh, yes; definitely.

Mr. Clermont: Do you think that the importers of similar machines are entitled to that information?

Mr. Chambers: Oh, yes; definitely.

Mr. Clermont: Thank you, Mr. Chairman.

The Chairman: Mr. Macdonald?

Mr. Macdonald (Rosedale): Mr. Chairman, the delegation we heard this morning thought the Canadian tariff levels were too high and that Canada had not been generous enough in the Kennedy Round. I gather this delegation would not accept that viewpoint.

Mr. Finnigan: We are not necessarily high-tariff minded but had it been left to us I think we could have arrived at a better arrangement by which the Canadian machinery industry could have prospered without very high tariffs. There are some things, particularly in the initial stages of production, for which you need a good tariff. Just because you happen to make a machine people do not rush to buy it. You have to sell it and persuade them, and so forth. And if you make a new machine very often you are up against very established competition and in order to get into the market you need that protection; but afterwards, as our skills develop and our production advances, then we do not need as high a tariff. We would have had lower tariffs on quite a bit of machinery and maybe a high one but we would have had a tariff on all machinery.

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Mr. Macdonald (Rosedale): Then would it be going too far to say that without the existence of the tariffs there would be no Canadian machinery industry? In other words, if you did not have tariff protection would the existing firms basically have to go out of business?

Mr. Finnigan: Most of them, I think.

Mr. Macdonald (Rosedale): Is that a general consensus?

Mr. Finnigan: Mr. Lewis might answer that.

Mr. Lewis: Mr. Chairman, in response to a question like that I think we have to recognize that you have to do some selling and in selling all the prices are very much the same.

You are looking for things to give you a preference and the thing that goes against most Canadian machinery manufacturers is the fact that their volume of production to date, their popularity, has been small whereas the bigger companies have thousands of references to point to. So it is important to have some kind of tariff or something like that, which only gives you a little more preference, for consideration of your proposition.

Mr. Macdonald (Rosedale): Your competitive disadvantage, then, is not entirely in price; it is partly in versatility, is it not?

Mr. Lewis: Price is a small part; a small part.

Mr. Macdonald (Rosedale): Mr. Chambers, did you want to comment on that as a Canadian owned manufacturer?

Mr. Chambers: I would agree with Mr. Lewis that price within limits is not the entire factor but, on the other hand, it is an important factor when it is a very similar commodity. But if you are talking of machine tools, there are names that catch the imagination of the world, American machines in particular, and a Canadian, provided price and delivery remain reasonably comparable will, as a defence mechanism if for no other reason, buy the machine with a well-known name from the United States.

Mr. Macdonald (Rosedale): Would you say that this is one of those cases—this is a thesis of Professor Harry Johnson—where the existence of the Canadian tariffs provides an incentive to American take-over in this country? But for the Canadian tariff the Americans would probably sell in here without the direct intervention of a Canadian manufacturer? That question is directed not necessarily to you, sir, but to the delegation as a whole.

Mr. Chambers: I do not think it has prevented Americans from taking over Canadian manufacturers; they seem to take over companies that have indicated a reasonable ability to make money.

Mr. Macdonald (Rosedale): I was saying is it not an incentive for them to take over Canadian firms? Why take over a Canadian firm if there is no tariff and sell right in here?

Mr. Finnigan: The Canadian market for machinery is a very good one and it is not so small as people sometimes think and it is very desirable. When I mentioned a little

example of competition a short while ago I pointed out I had—I am a U.S. subsidiary—four other U.S. subsidiaries competing with me. I also mentioned that I have been in Latin America. Wherever we are, they are. They would not leave this market to us, nor would we leave it to them. They cannot, on their price level with the duty and our anti-dumping, compete in Canada with somebody who is established here unless they manufacture in Canada, so they manufacture in Canada.

Mr. Macdonald (Rosedale): Let us say that the level of protection was reduced to zero, apart from the question of the capital that may be invested in this country—this may be a little difficult for you to answer about your parent company's policy—do you think the American firms would continue to have subsidiaries in the Canadian market? Is there an incentive apart altogether from the invested capital?

Mr. Finnigan: I will answer it and then pass it to Mr. Lewis. I do not see that there is any particular incentive apart from the fact that they have a plant here which is working successfully and anybody who has an asset would like to keep it working. But if we came to the situation that I mentioned a little earlier, if Canada could trade what it has given away already, duty-free entry of American machinery into Canada for a similar concession from the U.S., then sure; they would make certain things here and ship them into the States.

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Mr. Macdonald (Rosedale): If their tariff went down to zero, could you compete with your parent company in its own market?

Mr. Finnigan: Compete would not be the word. My parent company has something like seven plants in the States; in Texas, Denver, Illinois and so on. They would just have another one in a place called Canada.

Mr. Macdonald (Rosedale): Mr. Chambers is probably the right man to ask the question, too.

Mr. Chambers: We compete now to a degree in the United States. If we were on a duty-free basis we would have a jolly good market.

The Chairman: Mr. Lewis?

Mr. Lewis: I would like to make the point that not all the U.S. subsidiaries in this coun-

try make the same products as their parent companies. Our parent companies do not make anything that we make. It is very important for American companies and European companies to get references in the Canadian market for their world trade because here in Canada you have a very large-scale operation in the primary industries, like mining and paper and power, and these people cannot afford to be frozen out of this market. Canadian suppliers in many cases are competitive and they could go around the world but because they are not international traders, they do not enjoy that privilege.

Mr. Macdonald (Rosedale): Perhaps I could go from there to another question. Does the British preference and Canada's access on a preferential basis into the Commonwealth markets not operate here as in the automobile business, so that there is an incentive for the American parent company to put some business in the Canadian subsidiary because it can sell into, say, British and Australian markets at a lower tariff rate? Is there no incentive for export business of that kind?

Mr. Finnigan: There is, but there again a lot of these companies have British plants and Australian plants.

Mr. Macdonald (Rosedale): I see.

Mr. Finnigan: We do a certain amount of it.

Mr. Macdonald (Rosedale): I presume one of the chief reasons for not running the export operation through Canada is, why expose the profits to Canadian taxes as well as American taxes? Why operate in a triangle instead of a straight line?

Mr. Finnigan: You have touched on one thing we talked about at one time, namely, hidden incentives. Our United States company can have what they call a "Western hemisphere corporation" and the rate of tax on profits for that corporation is 34 per cent as compared to 48 per cent, I think it is. Here it is about 48 to 50 per cent. So, if I ship to any place in the Western hemisphere, which means Latin America apart from Canada and the United States for the United States parent it is much more advantageous taxwise to ship from the United States.

Mr. Macdonald (Rosedale): Thank you, Mr. Chairman.

The Chairman: Mr. Cameron and Mr. Gilbert raised their hands at about the same

time and perhaps as they are in the same group we should allow them to decide between themselves who will take priority.

Mr. Macdonald (Rosedale): I am sorry, I have one more question which I forgot. On page 3, under recommendation 1, on the final line you referred to a series of controversial and *ad hoc* decisions it seems to me in accents of disapproval. Is your Association's view against the kind of legal regime that formerly existed with respect to "made in Canada" rulings?

Mr. Finnigan: We found it unnecessarily complicated. It was hard to get a "made in Canada" ruling; the process was long. The Department of National Revenue would send out circulars all over the world saying somebody in Canada proposes, or is applying, to have this machine declared "made in Canada;" what were your exports to Canada for so many years? And eventually when one did get a "made in Canada" ruling all one's competition, of course, had been alerted and there was generally an inventory inside the country below duty, sufficient for a couple of years at least. There were a lot of split-hair decisions which were very irritating. Also, the whole system combined is now told to specialize. The system up to now has been that the Canadian manufacturer, if he wanted protection, was supposed to make every kind of machine and every class of machine. If one said that he made compressors, they would be dutiable while maybe a compressor of a different type would be said not to be dutiable or "not made in Canada." So in order to get protection one had to make every size and every model that was made anywhere in the world and this is impossible. Under this new system it may develop the same way.

• 1740

The Chairman: Or it may not.

Mr. Macdonald (Rosedale): Does specialization seem more probable under the availability system?

Mr. Finnigan: Not that we can see.

Mr. Macdonald (Rosedale): But do you favour the new system over the old?

Mr. Finnigan: Availability yes, but we would like to see how things are managed in practice.

Mr. Macdonald (Rosedale): Thank you.

The Chairman: Mr. Gilbert?

Mr. Gilbert: Mr. Chairman, a government spokesman said that officials of the government were in constant touch with organizations and groups, prior to and during the Kennedy Round negotiations, for consultation purposes. Was your organization consulted by government officials with regard to your views?

Mr. Finnigan: We certainly were; however, one must perhaps define "consultation". We were told more or less what the government had in mind. We thought there was going to be a uniform duty for all machinery. We were told there would be a rebate probably of one-third. We were kept on tenterhooks for two years or so about really what would come out. The duty was reduced on "made in Canada" machinery by one-third, from 22½ to 15, and we had no objection. But the British preferential tariff was reduced from 10 to 2½, which is a 75 per cent reduction, and the duty was eliminated on 60 per cent of the imports, the "not made" type, which is 100 per cent production. So it is true we were consulted, if that is the word.

Mr. Gilbert: But you were not heeded, is that it? I would imagine that you made representations.

Mr. Finnigan: We did.

Mr. Gilbert: Yes. I have also been informed that the government intends to give the same assistance to United States subsidiaries operating in Canada, as Canadian-owned companies, with regard to direct loans, government insured loans and consulting services and we have been told that that same assistance does not apply with regard to the United States government for Canadian companies operating subsidiaries in the United States. I would like to ask Mr. ...

The Chairman: Are you sure that is what the answer was?

Mr. Macdonald (Rosedale): American assistance for subsidiaries operating in Canada?

The Chairman: I think it was Mr. H. H. Wright of the Department of Industry who informed us that he had checked and the American Adjustment Assistance Act did not permit the American government to assist subsidiaries of American firms in Canada. That is what I thought he was saying. You raised the point earlier and I think I said at

that time it was very worthwhile looking into to see whether we are being more generous with subsidiaries of foreign firms in Canada than our major trading partner.

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Mr. Gilbert: That is what I am trying to get at, Mr. Chairman.

The Chairman: But it may be through inadvertence on Mr. Wright's part that he actually may not have completely answered your question.

Mr. Gilbert: Then I would like to ask Mr. Chambers if he thinks it is fair that the Canadian government should assist subsidiaries of United States companies in Canada?

Mr. Chambers: From a purely selfish point of view, no. I should add, however, that our association, with the various government departments in the area of assistance, has been most co-operative. We have been quite pleased with the efforts put forward, particularly by the Department of Trade and Commerce.

Mr. Gilbert: Certainly assistance to the American subsidiaries is not going to help your competitive position.

Mr. Finnigan: By "assistance" do you mean financial assistance?

Mr. Gilbert: There are three types of assistance that the government proposes to give to companies as a result of the tariff reductions.

Mr. Finnigan: When assistance was discussed in our association I could not see that any of the United States subsidiaries thought they would be interested at all.

Mr. Gilbert: I see.

Mr. Finnigan: They felt this way all right, if it suits the manufacturer in Canada we will, and if it does not suit him we will not. But these companies make certain lines of equipment; they would not change and make something else very easily.

Mr. Gilbert: So the practical effects will not be of much consequence to American subsidiaries.

Mr. Finnigan: I do not think so. It may be quite different for other companies that are not American subsidiaries.

Mr. Gilbert: I am just wondering what you had in mind with regard to the depreciation

allowances on Canadian-made equipment in your recommendation No. 8 on page 4. What type of allowance would you recommend?

Mr. Chambers: Mr. Chairman, more rapid depreciation on equipment is generally quite eagerly sought by industry and there is an advantage then in the sale of a machine or piece of equipment to a company if it can depreciate at a faster rate than it has been depreciating in the past. Consequently, if you offer a Canadian manufacturer the chance to depreciate a Canadian machine at a faster rate than some other machine, he is probably going to use that as just that extra item to tip the sale in your favour.

Mr. Gilbert: It is sort of a selling advantage against your competitor.

I think it was Mr. Finnigan who said that it would be very difficult to rationalize the machinery and equipment business in Canada because of the different types of owners. Is that right, Mr. Finnigan? Would you expand on that?

Mr. Finnigan: We have a common problem, as you see, by our conditions, our situations and our difference. The solution common to all of us would be duty across-the-board on all machinery.

Mr. Gilbert: You think that is the answer to the problem.

Mr. Finnigan: Well I think most of the difficulties you talked about this morning about now, and so on, have been connected with "made" or "not made", "available", or "not available" and who is to say? These things are very difficult to work with in practice.

Mr. Gilbert: That is all, Mr. Chairman. Thank you.

The Chairman: Mr. Cameron?

• 1750

Mr. Cameron (Nanaimo-Cowichan-The Islands): Mr. Finnigan, I am not quite sure if I understood you correctly, but I formed the impression that your company and companies such as yours are perhaps not under some compulsion, but they are certainly more likely to be importing components and materials from the parent company if they are available. Was I correct in my understanding?

Mr. Finnigan: There is certainly no compulsion. A company like mine is established in Canada to sell; to look after our equipment in the Canadian market, and when it is advantageous for us to make it in Canada, we make it here. When it is not advantageous to make it, we import from the parent company.

Mr. Cameron (Nanaimo-Cowichan-The Islands): If there were a comparable item available in Canada, manufactured in Canada, would your company be able to make a purchase from the Canadian firm if prices were comparable, or would you still be under pressure, shall I say, to buy from your parent company?

Mr. Finnigan: If we can buy any supplies in Canada for our manufacturing effort we buy them. We would rather buy them in Canada. This increases what is called the Canadian content, and also it is nearer, you are in closer contact with the supplier, and so forth. We make a lot of effort to buy in Canada.

Mr. Cameron (Nanaimo-Cowichan-The Islands): You said at one point, Mr. Finnigan, that plants of companies such as yours have been established in Canada to supply the Canadian market. Do you mean exclusively?

Mr. Finnigan: Not necessarily. Certainly this is what prompted their establishment, but a business such as ours grows with conditions and if conditions should develop that we can supply other markets, why there certainly would be no objection to it. We have supplied several different countries with our machines; a number on Canadian foreign aid programs, and others, because our parent company had made the sale. Whatever reasons they may have had for doing this, which was probably they did not have machines available, that is about the only one that I can think of, and they would tell us to ship to the Philippines. South America or wherever.

Mr. Cameron (Nanaimo-Cowichan-The Islands): If the parent company had comparable machines available would you be able to compete with them in the Philippine market, for instance, or any of the other markets you stated.

Mr. Finnigan: We could not try. It is our own family. In order for us to do so we would have to send somebody there. Machinery requires not only people who sell, but people who service and engineers, and all this kind of thing, and our parent company has to

set up all around the world. We can use those facilities if somebody wants a particular machine that we make in Canada, for example, that our parent does not make and they sell them for us. To get that service in the way we get it, which is free, is a tremendous advantage to us. If we can keep this manufacturing business going in Canada long enough and expanded enough these opportunities will increase and develop.

Mr. Cameron (Nanaimo-Cowichan-The Islands): If you did develop in Canada to the point where you were able to support this selling and servicing organization, would you think then that you would be free to compete with the parent company in the markets of the world?

• 1755

Mr. Finnigan: This idea of competing with the parent company or another company, say our Australian company, our South African company, does not enter into the picture; we work together; we are the same family.

Mr. Cameron (Nanaimo-Cowichan-The Islands): So in effect you are confined to the Canadian market to all intents and purposes.

Mr. Finnigan: Yes.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Now you had another comment to make with regard to the possibility of a Canadian subsidiary, such as yours, innovating some new development or wishing to do so and you pointed out that you would require the consent of the parent company to go ahead with that on account of the necessity for the capital required for that development. I have noted that a number of authorities, including the Economic Council of Canada, have told us on a number of occasions that something over 70 per cent now, I think, of new capital investment in Canada comes from retained earnings of corporations. I was wondering if you could give me an idea of what proportion—not for your own company, I am not asking that, but by and large what you know of in this particular industry, the machinery industry—of retained earnings is left available for reinvestment in Canadian concerns and what proportion is remitted to the parent company?

Mr. Finnigan: I cannot give you an exact figure, but I can give you a figure that is towards...

Mr. Lewis: Mr. Chairman, in that respect Canadian subsidiaries of an American company do not act any differently than Canadian companies because they are controlled by the tax regulations. They have depreciation earnings which are plowed back into the Canadian subsidiary. The rest of the money is paid out in the form of a dividend and that follows the usual dividend distribution pattern. It may be, say, 30 per cent, 40 per cent or 50 per cent. The rest of it would be plowed back into the company.

Mr. Cameron (Nanaimo-Cowichan-The Islands): You are not trying to tell me, are you, that there has been no remission of earnings, undistributed earnings, back to the parent companies?

Mr. Lewis: I am saying what I think is the usual practice.

Mr. Cameron (Nanaimo-Cowichan-The Islands): All I can point out is that it was only last week that a financial crisis was created in Canada and according to the government spokesmen, including the Minister of Finance, this was caused by an unusual transmission of retained earnings of Canadian subsidiaries. Therefore apparently it does take place. The statement of the Governor of the Bank of Canada indicated that although this was an abnormal transmission, that there was a very large transmission of retained earnings to the United States. The question I want answered is can a Canadian subsidiary of an American corporation expand its operations in Canada on the basis of the earnings it makes in Canada, which is the position that Mr. Chambers would be in.

Mr. Chambers: Yes; I can answer that in a specific reference in that it was a foreign owned company that wished to undertake an expansion program in Canada. It had a choice between supplying the money itself or borrowing it in Canada. The decision was taken obviously to borrow it in Canada because the Canadian dollar was going down and they would not have so much to pay back.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I still have not received the answer to the question of whether it is possible for a Canadian subsidiary, such as yours, Mr. Finnigan, to expand its operations in the way in which you suggested—by the innovation of new products—on the basis of its earnings in Canada, or does it have to call on the parent company to send back some of the earnings that have been transmitted?

• 1800

Mr. Finnigan: The case is not quite as you stated. In the case of my own company the earnings remitted to the United States have been very little, such as to be insignificant. The retained earnings have gone to develop the Canadian plant.

We do not have those earnings, as it were, except in the form of plants. We do not, as it were, dispose of them by saying "We have half a million dollars and we will use it this way or that". If we want to begin a new program we have to ask our shareholders, who are our parent company, "Can we do this", or, "Do we go into some other project", or whatever.

The retained earnings are used for the benefit of the Canadian company, but the parent company decides the program.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I have one final question, Mr. Chairman, for Mr. Chambers. You were speaking of the failure of the Canadian Government to assist Canadian companies in the matter of research and so forth and of its failure to stimulate the development of Canadian companies. I think you spoke of this in connection with the suggestions that have been made in many quarters for some sort of rationalization of the Canadian industry.

The question I wanted to ask you, Mr. Chambers, was whether you consider the Combines Investigation Act may perhaps be a stumbling block to some rationalization of Canadian manufacturing industries?

Mr. Chambers: Personally, I would not think so from my own experience.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Thank you, that is all, Mr. Chairman.

Mr. Lambert: In the light of the fact that your reported export sales in 1966 for the industry were about 5 per cent of the total sales, do you feel that this limitation on your export sales was a result of, first of all, the duty imposed by foreign trading partners or of the competitive advantage that their domestic companies enjoyed over you? Or do you feel it was the result of, shall we say, these non-tariff barriers that some other industries complain about and regardless of what the tariff level may be or the competitive position on the basis of price and service and so on, they run into deliberate statutory tariff barriers?

Mr. Finnigan: Answering for the subsidiaries, I have already explained that I do not feel we are trying really for export. However, this does not apply to my colleagues here and I will let both of them answer on the point you mentioned.

Mr. Lewis: Our company, I think, is a fairly large exporter, Mr. Chairman, in relation to others. We can only export where the conditions are right. If you get a big situation where the Buy America Act or the Distressed Labour Act is against you, you have 10 or 12 per cent to get up over in addition to the tariff and it is pretty hard. That quite frequently limits it.

Mr. Lambert: That has worked to your disadvantage?

Mr. Lewis: Yes.

Mr. Lambert: I see. Thank you very much.

Mr. More (Regina City): Mr. Lewis, you said earlier that you were a subsidiary company wholly owned, as I understand it, but that you did not manufacture anything that your parent company manufactured.

Mr. Lewis: That is right.

Mr. More (Regina City): You are in the export business then?

Mr. Lewis: Yes.

• 1805

The Chairman: I would like to ask a brief question, and perhaps Dr. Annis or Mr. McKennirey could assist me. Are there other countries the size of Canada, slightly larger or, for that matter, even smaller, that export more machinery than we do?

Dr. Annis: I am not in a position to answer definitively. I would mention that Sweden is quite an important manufacturer of machinery.

The Chairman: Perhaps the gentleman from Trade and Commerce would help here.

Mr. Porter: I am afraid I have no information here on the absolute amounts to actually compare the size.

The Chairman: Let us take Sweden as an example. Do they export more machinery than we do, roughly?

Mr. Porter: As I said, I do not have the figures here. I will find out if you wish.

The Chairman: Do you have any information on this. Mr. McKennirey?

Mr. McKennirey: No, you see there is such a broad range of machinery. Companies in Switzerland, Italy, France, Germany and all these older European countries have specialized lines which they have built up for many years and some of them are very heavy exporters. For example, Switzerland is in the heavy equipment field, and Mr. Lewis is very familiar with them. Proportionate to their size I would imagine that they do better than Canada. But Canada produces such a broad range of products that there are heterogeneous sales in the United States which add up to quite a percentage over the year. Some statistics compiled by the Department of Industry this year indicated that exports, as a percentage of Canadian shipments from the Canadian machinery industry as a whole—not just for the group that you represent—were about 31 per cent. However, if I recall—I do not have the statistics right at hand—we found that the percentage of Canadian products of the type covered by 42700-1 that were exported was something of the order of 15 per cent.

The Chairman: My reason for asking this question is if we just look at Switzerland, for example, even granting that they have been at it much longer than Canada, they are exporting a lot more machinery in absolute dollar amounts than we are, irrespective of their range. I presume if we look at the Swedish machinery industry, we would see a much smaller proportion of it in the form of subsidiaries of parent firms of other countries, whatever the country may be, which may light up a question mark in the minds of some as to the future of the Canadian machinery industry, at least as far as exports are concerned. It would appear from what Mr. Finnigan has said that if 60 per cent of the members of this wide-ranging association of machinery manufacturers are subsidiaries of United States corporations, and if—I think I know the words Mr. Finnigan used—"subsidiaries are not really trying for export"—the pattern of ownership of the industry remains as it is we can never hope for any significant expansion of this industry in the export market. Does this not follow from what you told us?

Mr. Chambers: Mr. Chairman, the point we have tried to make as an industry is really a very simple one. In order to have a healthy and growing machinery and equipment

manufacturing industry in Canada it has to be supported until such time as it reaches the point where it can become competitive. The European situation and the Canadian situation are quite different, one from the other.

The Chairman: Can you tell us briefly why that is?

Mr. Chambers: Yes, because our market is only in the United States. It is a very sophisticated market with practically all its own needs met within its borders, following a very protective policy. Canada, on the other hand, is far removed from any other country and Switzerland, Sweden, England, Germany, and so on, are all closely knit, and they are not up against the same freight differentials. There is an understanding one with the other from a language standpoint that we do not have.

The Chairman: What about Sweden?

Mr. Chambers: Sweden?

The Chairman: Yes, Swedish is not exactly a world language.

Mr. Chambers: No, no, but there is an interchange of language between one country and another in Europe that does not apply in Canada. There is not the same distance to travel and, furthermore, there is quite an interchange of engineering knowledge and know-how that does not extend to Canada because we have only the one market, relatively, and that is the United States, in the particular areas in which we operate.

• 1810

The Chairman: Do not countries like Sweden and Switzerland export around the world in certain areas of production?

Mr. Chambers: You do not see very much of their stuff over here.

Mr. McKennirey: Mr. Chairman, I have the statistics now. According to the United Nations Statistics for 1964, Sweden exported \$576 million in United States currency; Japan \$481; Switzerland \$603, Italy \$863, France \$910...

The Chairman: Would it be possible—we do not expect to have it tonight—for someone in your Department to develop the principal markets for these countries?

Mr. McKennirey: Yes.

The Chairman: I am sure the United Nations statistics would give that.

Mr. McKennirey: The statistics indicate their destination, but I do not know whether they give...

The Chairman: Not with regard to the range of machinery. Mr. Chambers, as far as the change of technology is concerned, the United States claims it has the most advanced technology in the world in almost any area and using your own argument we would have greater access to that than anybody else. It would seem to me, sir, that the burden of expanding our machinery industry in the export field lies upon the 40 per cent represented by you. You have shown some commendable initiative already, but I am wondering if it is entirely fair to put 100 per cent of the job on the shoulders of 40 per cent of the industry?

Mr. More (Regina City): If we gave them some incentive they would not object.

Mr. Chambers: We run into funny things, you know. We have attempted to sell in South America. We have discovered that if there is a maker in a South American country, he pretty well has a monopoly. There is a surcharge generally applicable up to as high as 40 per cent, on top of a very substantial duty protections and it inhibits the possibility of export to South America. When you come to the United States, as I said that country provides practically all its requirements. It has a few specialties that it imports in the machine tool trade from Switzerland, for example, and to some extent from Sweden in bearings, and so on, but fundamentally it meets its own requirements. So, when Canada looks for a chance to sell there it has to be on the same basis, at least from a price standpoint, and there is a duty against us and it is very, very difficult.

The Chairman: I presume from what you said, Mr. Finnigan, if lightning struck or the millenium came and you were left to your own devices and you had capital, you could go out and find more business in the export market than you do now under your own leadership, for example, if you sent salesmen from your plant to other countries of the world?

Mr. Finnigan: I was a salesman in the export market.

Mr. Gilbert: Mr. Chairman, I thought Mr. Finnigan said they really did not look for export markets.

The Chairman: I am just turning the point around and suggesting that if the ownership of his firm, which I presume he has at the present time, were different...

Mr. More (Regina City): And the subsidiary was bought by the Canada Development Corporation?

The Chairman: We have had a very useful exchange.

Are there any other questions or comments? Perhaps I interrupted our witnesses before they had concluded their response to my questions.

Mr. Finnigan: Mr. Lambert asked a question about the obstacles to exporting to other markets. You have touched on some.

Mr. Chambers: You mean the impediments to selling elsewhere?

Mr. Finnigan: Where there are no duties.

Mr. Lambert: I asked about non-tariff barriers and I think I generally got the answer.

Mr. Finnigan: I thought you were still waiting for it.

Mr. Lambert: There were clear indications that the surcharges in South America and the Buy American Act and a few other things make it exceedingly difficult.

The Chairman: I hope that before we conclude the whole range of hearings we can get some information on the principal markets of some of the other countries that build a lot of machinery, whether these markets are not simply their own domestic markets; and how they get around all these non-tariff barriers. It may be that we can pass along the information to your Association.

If there are no further questions or comments I declare the meeting adjourned until tomorrow at 3.30 p.m., or as soon after Orders of the Day as may be possible. At that time we will hear Messrs. Richard and Hooper.

APPENDIX "L"

January 10, 1968.

H. E. Gray, Esq.,
Chairman, Standing Committee on Finance,
Trade and Economic Affairs,
House of Commons,
Ottawa, Canada.

Dear Mr. Gray:

On behalf of Canadian Importers Association Inc. we wish to thank you and your committee for giving us an opportunity to present the views of this Association arising from the government resolutions presently before the House of Commons relating to the recently concluded "Kennedy Round" tariff agreements. These resolutions, if implemented by Parliament, will amend the Customs Tariff Act and place on a statutory basis the numerous tariff changes agreed to by Canada at this GATT Conference. We understand that the subject matter of these resolutions has been referred to your Committee. This will exclude any reference at this time to the new International Code on Anti-Dumping Policies which, from the point of view of Canadian importers, was an equally important part of the Kennedy Round agreement and which presumably will be implemented by legislation to be introduced into Parliament at a later date.

Canadian Importers Association is the national association in Canada representing the interests of Canadian importers. There are presently 626 members made up of straight importers of goods, Canadian manufacturers who are required to import component parts, and firms engaged in servicing the import trade such as chartered banks, customs brokers and warehousing organizations.

In a general way, Canadian Importers Association Inc. endorses completely the results of the Kennedy Round of tariff negotiations with particular reference to Canada's commitments. Since the time of its incorporation, decades ago, this Association has consistently advocated a policy of freer international trade to be achieved by reductions in tariff rates and also the elimination of non-tariff barriers.

It is the opinion of this Association that one of the most important results of the "Ken-

nedy Round" agreement is that GATT will continue as an effective international organization governing the conduct of international trade. It is significant that the "Kennedy Round" negotiations were conducted under the auspices of GATT and resulted in what has been heralded as the largest international tariff agreement in history resulting in substantial reductions in trade barriers by the world's industrial countries.

We would be remiss if no reference was made to the skill and ingenuity of Canada's trade negotiators at these "Kennedy Round" negotiations. It is a well recognized principle of international tariff bargaining that a country always tries to obtain the biggest tariff concessions from other countries and make the fewest trade concessions itself. It is the view of this Association that in this respect the Canadian representatives did extremely well with the result that Canada did not make as great tariff concessions as many people are inclined to think were made. Therefore, although the Association endorses wholeheartedly the results of the "Kennedy Round" negotiations, it wishes to record the following reservations for the consideration of this Standing Committee.

(1) The Minister of Finance in a Supplementary Budget Statement to the House of Commons on October 4, 1967, referred to the "Kennedy Round" agreements in some detail. He stated that the tariff concessions made by Canada cover about \$2.5 billion worth of imports involving a large number of tariff items of which almost \$2 billion of the goods originate in the United States. He indicated that on these imports the average reduction in rate of customs duty will be in the neighbourhood of 25 per cent. Particularizing the Minister went on to state that in the future Canadian rates of duty on final manufactures will generally be about 17½ per cent to 20 per cent as compared with the old range of 22½ per cent to 25 per cent. In the case of intermediate products rates will range downward from 15 per cent and many basic materials will tend towards the duty free level.

Although these statistics are encouraging, yet the Economic Council of Canada has

analyzed the effect of the "Kennedy Round" rates in its Fourth Annual Review published in September 1967. Amongst other things, it concluded that:

"While the ultimate reductions in trade barriers on manufactured products will be substantial as a consequence of the Kennedy Round, and while these reductions should help to achieve important longer term benefits for the Canadian economy along the lines just indicated, it is clear that some significant trade barriers will still exist for many manufactured products after the present schedule of reductions has been completed. Indeed Canada emerges as a relatively high tariff country as regards tariffs on manufactured products among the world's industrial nations. To the extent that still further benefits can be gained from still further reductions in trade barriers in the future, it should be an important continuing objective of Canada's international economic policies to maintain an active interest in exploring, in close association with our principal trading partners, how further reductions in trade barriers can be effectively achieved." (Pg. 171)

As proof that Canada will still be a relatively high tariff country a perusal of the Customs Tariff structure demonstrates that there are a significant number of tariff items covering different commodities that were not subject to the "Kennedy Round" negotiations at all. Many of these items still retain M.F.N. rates of duty ranging between 25 per cent and 30 per cent. In addition, even amongst the tariff items that were negotiated quite a number of them, on January 1, 1972, after all of the successive rate reductions have been made, will still attract M.F.N. rates of duty of 22½ per cent or 25 per cent. This is particularly so in the case of textiles.

Consequently, it is our submission that the "Kennedy Round" reductions in duty rates will be beneficial having regard to the extent of their coverage, but that they did not go far enough. The Economic Council of Canada in its Third Annual Review dated November 1966 threw out the following challenge:

"Canada has clearly reached a stage in its progress towards economic maturity which warrants a much closer look at the possible contributions which freer trade could make to productivity growth in various sectors of the economy. Increased

specialization, leading to the increased international marketing, could add significantly to the growth of real income per capita." (Pg. 29).

The desirability of Canadian secondary manufacturing firms increasing their productivity as a result of a process of rationalization of their position by selecting longer runs of more specialized products has been the subject of greater discussion in recent times. Would reductions in tariff rates hasten this trend? According to the recently published Fourth Annual Review of the Economic Council of Canada the answer would appear to be in the affirmative. The Economic Council held that:

"If significant cost economies can be achieved through increased specialization of production within individual plants, a logical question arises as to why less diversification and more specialization has not developed in Canadian plants.—A major part of the answer would appear to lie in the existence of both Canadian and foreign tariffs which have either reduced incentives for, or have inhibited greater specialization. Indeed, Canada's historical tariff policy, within the framework of a "National Policy" which was developed in the latter part of the nineteenth century, was deliberately designed to produce a substantial degree of diversification of production in Canadian manufacturing. However, now that the Canadian economy has grown and developed in many ways a re-examination of the effects and costs of the tariff has become increasingly essential.—" (Pg. 161)

In the same Annual Review, the Economic Council went on to conclude that:

"The route of tariff reduction for manufactured products is, in our judgment, the most promising of all routes towards increased specialization in Canada and the consequent narrowing of the existing gap in productivity in manufacturing between Canada and the United States. By "tariff reduction" we mean negotiated reductions in both Canadian and foreign tariffs.

The Recently concluded Kennedy Round of trade negotiations under the General Agreement on Tariffs and Trade has resulted in the largest and most wide-ranging program of tariff reductions on

industrial products achieved since the Second World War. These results will help to provide opportunities for a very substantial expansion in Commerce in manufactured products over the medium and longer term future. In doing so, they will help to provide a basis for greater scale and specialization in Canadian manufacturing along the lines indicated in this chapter—and hence will offer opportunities for more efficient use of resources, important gains in productivity, and reductions in various types of unit costs and prices.

Canadian manufacturers will derive new and unprecedented access to export markets as a result of these negotiations. —” (Pgs. 167-8).

In all fairness it must be recorded that this Association was pleased to note that the Minister of Trade and Commerce did inform the Commons on September 27th, 1967 that the Kennedy Round of tariff negotiations did not represent the end of the road towards freer trade insofar as Canada is concerned. He went on to state that at that time the Canadian government was already considering what additional trade initiatives could be taken in this direction. Then later the same Minister informed the Commons on December 11th, 1967, after his return from Ministerial Sessions both GATT, and the Organization for Economic Cooperation and Development, of the stand taken by Canada at these recent meetings. It is encouraging to note that Canada went on record as advocating further reduction and removal of trade barriers. In particular the Minister of Trade and Commerce requested duty free treatment for primary industrial commodities, the elimination of nuisance duties, greater trade liberalization of agricultural products, and improved trading opportunities for developing countries.

(2) Tariff item 42700-1 is one of the major tariff provisions dealt with in the Customs tariff resolution designed to implement Canada's obligations under the "Kennedy Round" agreements. Imports under this new machinery tariff item it is estimated will be in the neighbourhood of \$700 million per annum. It will replace the existing major N.O.P. machinery tariff items 427 and 427a where the "class or kind" criterion was used. The statutory rates of duty under this tariff item 42700-1 will be 2½ % B.P. and 15 % M.F.N. In addition there is written into the wording of this tariff item a proviso to the effect that

remission of duty may be granted by the governor in Council on the recommendation of the Minister of Industry when such remission is in the public interest and the machinery being imported is not available from production in Canada. Aside from the fact that this is an instance of ministerial discretion, it will be noted that there are two criteria involved, namely "availability" and "public interest" which will have to be invoked at the time of each importation of machinery covered by this tariff item.

This Association is apprehensive over the fact that standards to be applied in determining these criteria are not set forth in the legislation. It is true that the present Minister of Industry outlined such standards in a speech in the House of Commons on December 12, 1967 (Pg. 5331), but they have no statutory basis. A future Minister of Industry might adopt different standards in determining these criteria and there would appear to be nothing in the law which would prevent him from doing this. It is our opinion that this is going to be a very cumbersome tariff item to administer. Although the present Minister of Industry has announced the establishment of a Machinery and Equipment advisory Board to determine the questions of "availability" and "public interest" together with the creation of a further Review Board to handle appeals from decisions of the former Board, it will be observed that these are purely temporary organizations which will operate without any proper statutory basis at all. What is there to prevent a future government from changing the whole administrative set up? The only safeguard might be the undertaking given by Canada, according to the Minister of Industry, to the other interested "Kennedy Round" countries that the average annual incidence of M.F.N. duty under this tariff item 42700-1 will not exceed 9 per cent. How binding is such an undertaking and in what form is it given?

On the grounds of difficulty of administration alone this Association is concerned over the fact that this will be a very cumbersome tariff item to deal with and which will tend to impede the flow of imported machines under it. Also because of the way in which it is going to be administered, it is always possible that this tariff item 42700-1 might operate instead as a protectionist device in disguise.

It is submitted that there is good precedent for such concern. As a result of the foreign exchange crisis of 1947, the Emergency Ex-

change Conservation Act was enacted and it was in effect until the end of 1950. Under this Act machinery covered under old tariff items 427 and 427a could not be imported unless a permit was first obtained from the Department of Trade and Commerce. No statutory standards were established in the statute governing the grounds on which import permits would be issued covering machinery imports. Canadian importers always felt that this emergency statute was administered on occasions in ways which were designed to have a protectionist effect.

(3) A number of the tariff concessions made by Canada involve total reductions of only $2\frac{1}{2}$ per cent and it is proposed that the staging of the reductions be carried out by five annual reductions of $\frac{1}{2}$ of 1 per cent. Many affected members of the Association are

of the opinion that this method will be unduly costly and inconvenient to them as importers. In the official government press release issued on June 29th, 1967, it was stated that tariff concessions granted by Canada could be implemented in a single step where staging the reductions over a four year period might be undesirable. It is submitted that cases where the proposed annual reduction is only $\frac{1}{2}$ of 1 per cent offer such a situation.

All of which is respectfully submitted.

CANADIAN IMPORTERS
ASSOCIATION INC.

Ernest P. Carr (sgd.)
President

Keith G. Dixon (sgd.)
General Manager.

APPENDIX "M"

January 9, 1968.

MACHINERY & EQUIPMENT
MANUFACTURERS' OF CANADA'S
BRIEF TO THE STANDING
COMMITTEE ON FINANCE,
TRADE AND ECONOMIC AFFAIRS

Re: *Kennedy Round Tariff
Agreements with Special
Reference to the
Government's Machinery Plan*

Gentlemen:

There has been a great deal written and seemingly many views expressed about the "Kennedy Round" on tariff changes and our Government's related Machinery Plan. Some of the points of view put forward have been based on benefits expected to be realized in specific segments of our industry activity. Some have conveyed the feeling that we have made the best bargain we can under the circumstances on our international relationships and hopefully look forward to everything turning out all right in the end; the others have viewed with varying degrees of alarm that we, as a nation, have departed from previously accepted tenets for the well-being of a developing country which included protection for its manufacturing industries.

In making our representations and comments, we confine our remarks to what we believe to be an objective analysis of the effect of the changes upon our industry. We have also put forward some suggestions which we believe can stimulate the continuing growth of our industry which, in our view, Canada requires, and which should be a reasonably self integrated capability. Previous legislation has resulted in the present structure of the machinery manufacturing industry. It had, no doubt, as its objective, the establishment of an adequate viable machinery industry. Administrative decisions, however, in response to various representations have gradually eroded this intent. It was stated in the House that, during recent years, about 60 per cent of the machinery imports, which will be covered under 42700-1, were ruled as being of a class or kind "not made in Canada". In 1966, the figure was closer to 65 per cent. It was stated that this pattern will

remain relatively stable. Previous legislation or the administration of it, was obviously not instrumental in accomplishing what was purported to be its objective. Otherwise, the machinery industry would have had much greater growth. It was our hope that to some degree at least, this situation would be remedied under the "Kennedy Round" Tariff agreements. We must say that we are frankly skeptical that this objective has been achieved. We make our presentation, therefore, in the hope that the points made are constructive and may guide later courses of action.

Matters of Concern

First, there appears to have been given to the Machinery Plan, without reservation, an aura of its being favourable to the machinery industry of Canada. This appears to disregard what the Honourable Minister of the Department of Industry said in his presentation of the Plan to the House when he stated that the changes in the machinery tariff had enabled Canada to pay for the Tariff concessions offered by our trading partners. The price, it has been indicated, is to be an overall reduction in duties paid on machinery imported into Canada.

Secondly, Canada has agreed to make tariff reductions on machinery effective January 1st, 1968. All other parties to the "Kennedy Round" agreements intend, we understand, to spread their reduction over a five-year period. While, therefore, some benefits may ultimately come from the agreements to some of our members, we must await their full effect. In the meantime, Canadian machinery manufacturers are immediately faced with the full impact of these tariff changes.

Thirdly, there is as yet, no evidence that our relative costs will improve. Generally, the duty on imported material has not been adjusted downwards in line with the duties now applicable on the finished products. In some instances, a higher rate of duty will apply. At the same time, the trend towards wage parity with the U.S.A. can have a disastrous effect upon many Canadian machinery manufacturers.

Fourthly, the possible effect of the removal of the automatic application of "anti-dump-

ing" duties gives our members cause for alarm.

Fifthly, some 60% of our members are subsidiaries of U.S. corporations. These count, in capital terms, for the bulk of the Canadian machinery manufacturing industry. Undoubtedly, there will now constantly arise for these members, the question of making or not making new products in Canada. They will perhaps also have to determine whether or not it is to the advantage of their parent companies to continue to make what they are presently making in this country. If machinery is available here, duties immediately become applicable on imports from the parent company. Also duty will be imposed on the sale of the Canadian-made products when they enter the U.S.A. On the other hand, these products, if "not available" in Canada will be admitted "free of duty", to Canada.

Possible Benefits

As an Association, our members recognize that the Government's Machinery Plan may hold some benefits for the Canadian machinery manufacturers. First, like other Canadian industries, production machinery, "not available" in Canada for use in our own production, could cost less.

Secondly, we understand that parts deemed "not available" in Canada and required for machinery, otherwise manufactured in Canada, will now be given duty free admission.

Thirdly, while traditionally under the previous legislation, Canada has, on balance, been substantially over-weighted by imports, under the new terms, some manufacturers, as tariffs in other member countries are reduced, may possibly find their products more competitive in the export field. A drastic reversal will obviously be necessary to bring our exports of machinery up to the point where they approximate imports.

Fourthly, the prosperity that is looked for, otherwise in Canada, by our Government and supported by some economic theories, if achieved, should stimulate the economy generally. This, in consequence, should have a beneficial effect upon the machinery and other industries not directly helped by the "Kennedy Round".

Recommendations

To ensure that under the new conditions presently obtaining with the greatest benefit that can be achieved, for our industry, we

would urge that the following steps should be taken:

- (1) Previously, the "made" and "not made" criteria have created confusion both for the manufacturer and the user of machinery and equipment in Canada. We ask, therefore, that the criteria of "availability" be such and be maintained to the benefit of Canadian Industry generally and be based upon Canadian capabilities, both for the present and the future and not be allowed to become a series of controversial and "ad hoc" decisions.
- (2) We trust that we can hopefully look forward to the time when reasonable duties are imposed on all machinery and equipment coming into Canada.
- (3) That action be directed to the discontinuation of "end-use" and other tariff concessions.
- (4) That the maintenance by our trading partners of artificial barriers which frustrate the benefits anticipated from the "Kennedy Round" be deemed unacceptable to Canada.
- (5) That the tariffs on material and finished products be reduced to a level not in excess of that applicable on the products in which they can be used.
- (6) That Government policies will be maintained, which will support and extend the machinery manufacturing industry in Canada including a healthy industrial climate with the objective of contributing towards the maintenance of a Canadian Sovereignty.
- (7) That "anti-dumping" regulations be administered to inhibit possible "dumping".
- (8) That as an inducement to the manufacturer of machinery in Canada which would not otherwise be made here, consideration be given to the introduction of special depreciation allowances on "Canadian-made" equipment.
- (9) That devices be established for assisting Canadian machinery manufacturers to become, and be enabled to maintain themselves comparatively competitive.

Respectfully submitted,

MACHINERY & EQUIPMENT
MANUFACTURERS' ASSOCIATION
OF CANADA

J. P. Finnigan
President

ORGANIZATION

The Machinery and Equipment Manufacturers' Association was formed in December, 1955. Its membership consists of 49 leading machinery and equipment manufacturers involved in the manufacture of most types of machinery products used in primary and secondary industries.

It does not include agricultural machinery, most types of transportation equipment, electrical apparatus and supplies (except those components that form an integral part of an industrial machine). It also excludes household, office and store machinery.

OBJECTIVES

In setting forth its objectives, MEMAC starts with the premise that there are certain basic and essential requirements necessary to any strong, sovereign nation. One of these requirements is a reasonably complete self-integrated machinery and equipment manufacturing capability. Another is the maintenance and expansion of the technical knowledge and skills required.

It is characteristic of under-developed nations that they have lacked manufacturing facilities for machinery and equipment. Canada has a significant machinery manufacturing industry and one of MEMAC's basic objectives is to foster its growth.

MEMAC believes that an increase in the volume of domestic manufacture of industrial machinery and equipment is in the public interest; it provides Canadian primary industry, particularly raw material producers, with a reliable domestic market; it also provides Canadian primary and secondary industries with an assured source of machinery and equipment and repair parts, to meet their expanding needs; it increases job opportunities for Canadians; it contributes to the greater processing of Canadian raw materials in Canada; it strengthens Canada's ability to compete in export markets.

With the foregoing in mind, MEMAC has adopted the following specific objectives:

(a) *Encourage Domestic Production*

To encourage the manufacture within Canada of machinery industrial equipment of every kind;

(b) *Develop Markets*

To develop markets within and outside Canada for Machinery and industrial equipment of Canadian manufacture;

(c) *Stimulate Public Interest*

To promote public interest in the use of machinery and industrial equipment of Canadian manufacture and in general the use and consumption of other Canadian products;

(d) *Research and Statistical Studies*

To engage in research and gather statistics concerning the manufacture and use of industrial machinery and equipment; to provide information for the continued development of industry in Canada;

(e) *Co-operation with Similar Organizations*

To co-operate with other organizations whose objects are similar to those of the Association;

(f) *Policy Statements*

To issue statements of policy on matters affecting the industry;

(g) *Submission to Government*

To meet with and make submissions to Federal, Provincial and Municipal authorities, in order to urge legislation and other appropriate action which will further the objectives of the Association;

(h) *Made in Canada*

To urge the specifying and purchasing of made in Canada products by all levels of government, all government agencies and Crown companies.

STATEMENT OF POLICY

1. To endorse action by our Government directed to the maintenance of Canadian Sovereignty and a healthy industrial climate.

2. To endorse all measures which we believe will further the development of industry in Canada.

3. To advocate and encourage the processing of its raw materials in Canada and foster primary and secondary manufacture that will utilize these raw materials.

4. To recommend that the Government consult with the Association prior to drafting legislation affecting the machinery manufacturing industry.

- 5. To advocate wise and judicious legislation for our industry to enable it to retain in Canada a market for its products.
- 6. To recommend the removal of tax concessions, to be replaced where necessary by subsidies and depreciation allowances.
- 7. To support the imposition of a reasonable duty on all machinery and equipment coming into Canada.
- 8. To recommend against reduction of any rates of duty applicable on machinery and equipment from any country other than on a reciprocally beneficial basis.
- 9. To oppose "dumping" and to support measures which provide constant and automatic protection against it.
- 10. To enlist the support of the Government in our endeavours to maintain and extend the manufacture within Canada of industrial machinery and equipment of all kinds.
- 11. To endorse actions of the Government which will increase Canadian export trade.
- 12. To support individual members whose interest or rights are being imperilled.

- 13. To develop sections for members with specific interests under which common problems can be examined and resolved.
- 14. To provide the means by which the aims and objects of machinery and equipment manufacturers in Canada may be given expression.
- 15. To publicize the capabilities of its members to provide machinery and equipment in Canada.

MEMAC STATISTICS (1966)

Total Domestic Sales	\$294,669,000
Total Export Sales	\$ 15,912,000
<hr/>	
TOTAL SALES	\$310,581,000
Number of Members	48
Number of Employees	15,442
Wages and Salaries paid	\$ 80,181,000
Federal and other taxes paid .	9,782,000
Capital investment in plants and equipment	\$ 51,440,000
Net Worth	\$125,063,000

APPENDIX "N"

CANADIAN IMPORT STATISTICS REQUESTED BY MEMBERS
OF THE COMMITTEE*

I. INFORMATION REQUESTED

1. Imports 1964 to 1966 of oak logs, lumber, flooring and veneer.
2. Imports in 1966 of logs and wood waste.
3. Imports of ski boots.
4. Imports from Japan in 1967 of tires and tubes under tariff item 61815-1.
5. Imports in 1966 of leather, showing detail for all countries.

II. CANADIAN IMPORT STATISTICS, EXTRACTED FROM DBS SOURCES, RELATING TO FOREGOING REQUESTS

1. Imports 1964 to 1966 of oak logs, lumber, flooring and veneer.

	1966	1965	1964
		(\$000)	
231-29—Hardwood logs, other than birch, maple, walnut and "exotic species"			
U.S.A.....	981		
	981	n.a.	n.a.
331-22—Oak lumber (including rough lumber and timber for manufacture of flooring)			
U.S.A.....	9,615	8,521	8,887
Others.....	12	14	4
	9,627	8,534	8,891
331-95—Hardwood flooring			
U.S.A.....	1,485	1,368	1,367
Others.....	80	131	106
	1,565	1,499	1,461
335-15—Oak veneer			
U.S.A.....	176		
Others.....	2		
	178	n.a.	n.a.

2. Imports in 1966 of logs and wood waste

Logs

		(\$000)
231-12—Birch—U.S.A.....		1,586
231-20—Maple—U.S.A.....		1,701
231-26—Walnut—U.S.A.....		1,236
231-29—Domestic hardwoods, n.e.s.—U.S.A.....		981
231-52—Pine, n.e.s.—U.S.A.....		631
231-55—Spruce and fir—U.S.A.....		10,269
231-59—Domestic softwoods, n.e.s.—		
U.S.A.....	1,820	
Nicaragua.....	1	1,820
231-79—Exotic species—		
Ivory Coast.....	145	
Burma.....	17	
Mexico.....	15	
Others.....	20	197
Total imports of logs.....		18,421

"n.a." means that separate figures are not available for the product in question.

*Information supplied by the Department of Finance.

Wood waste

Imports of sawdust in 1966 were as follows:

	(\$000)
U.S.A.....	98
Japan.....	7
	<hr/> 105

Imports of other wood waste and firewood are included in class 238-99, "crude wood materials, not elsewhere specified":

	(\$000)
Portugal (probably cork waste).....	4
U.S.A.....	3
	<hr/> 7

3. *Imports of ski boots*

Import figures for ski boots are not separately available. They fall under import class 790-99, "footwear, not elsewhere specified", a large "basket" classification.

4. *Imports from Japan in 1967 of tires and tubes under tariff item 61815-1*

Import figures for the full calendar year 1967 are not available. However, the most recent monthly figures indicate a slight drop in imports under this item from Japan, which in 1966 were \$1,109,000.

5. *Imports in 1966 of leather*

- (a) On which a reduction in the M.F.N.⁽¹⁾ duty is provided for in the Resolutions,
 (b) for which no M.F.N. reduction is so provided.

(a)—ON WHICH A REDUCTION IN THE MOST-FAVoured-NATION
 DUTY IS PROVIDED FOR IN THE RESOLUTIONS

Item	Description	(\$000)
60407-1	Patent leather (Imports are included under item 60405-1 and are not separately available).....	Statistics not available
60410-1	Sheepskin or lambskin leather, further finished than tanned, n.o.p.	
	United Kingdom.....	973
	France.....	169
	Australia.....	14
	New Zealand.....	7
	Argentina.....	1
	U.S.A.....	47
		<hr/> 1,211
60425-1	Sole leather	
	United Kingdom.....	34
	Mainland China.....	14
	U.S.A.....	16
		<hr/> 64
60505-1	Leather produced from East India tanned kip, uncoloured or coloured other than black, when imported for use exclusively in lining boots and shoes	
	United Kingdom.....	1,236*
	Ireland.....	2*
	France.....	2
	Japan.....	2
	U.S.A.....	1
		<hr/> 1,245

⁽¹⁾The only case in which the British Preferential duty is reduced is item 60600-1. Imports already entering duty free from B.P. sources are marked with an asterisk.

Item	Description	(\$000)
60515-1	Genuine pig leathers, n.o.p., and genuine Morocco leathers; so-called roller leathers	
	United Kingdom.....	905*
	Italy.....	1
	Poland.....	2
	India.....	2*
	Mainland China.....	1
	Japan.....	7
	Brazil.....	7
	U.S.A.....	426
		<u>1,351</u>
60600-1	Leather produced from East India tanned kip, n.o.p.	
	United Kingdom.....	3
	U.S.A.....	2
		<u>5</u>
60705-1	Leather, consisting of beef-cattle hides, horse-hides or sheepskins, but not including suedes, Cabrettas, Spanish capes or African capes, when imported by manufacturers of gloves or leather clothing, for use exclusively in manufacturing gloves or leather clothing in their own factories	
	United Kingdom.....	316*
	France.....	4
	U.S.A.....	51
		<u>370</u>
60710-1	Leather, not further finished than tanned, in whole hides, in grains, or splits, when imported by manufacturers of upholstering leathers, for use exclusively in the manufacture of upholstering leathers, in their own factories	
	United Kingdom.....	132*
	Brazil.....	1
	U.S.A.....	1
		<u>134</u>
60800-1	Leather not further finished than tanned, and skins, n.o.p.	
	United Kingdom.....	148
	Austria.....	3
	France.....	9
	West Germany.....	5
	Italy.....	1
	Netherlands.....	24
	Sweden.....	2
	India.....	1
	Japan.....	4
	Australia.....	1
	New Zealand.....	2
	Argentina.....	8
	Brazil.....	8
	U.S.A.....	700
		<u>916</u>
	Total of category (a) (Excluding "patent leather").....	<u>5,296</u>
	Imports under category (a) which already enter free of duty under the British Preferential Tariff.....	<u>2,593</u>
	Imports under category (a) on which duties are being reduced.....	<u>1,523</u>

(b)—ON WHICH NO REDUCTION IS SO PROVIDED⁽¹⁾

Item	Description	(\$000)
60405-1	Belting leather in butts or bends; and all leather further finished than tanned, n.o.p.	
	United Kingdom.....	2,884
	Ireland.....	9
	Austria.....	104
	Belgium-Luxembourg.....	12
	Denmark.....	1
	France.....	175
	West Germany.....	496
	Italy.....	27
	Netherlands.....	56
	Norway.....	3
	Spain.....	20
	Sweden.....	360
	Switzerland.....	4
	Yugoslavia.....	11
	India.....	1
	Mainland China.....	1
	Japan.....	5
	Australia.....	16
	New Zealand.....	1
	Brazil.....	3
	Mexico.....	5
	U.S.A.....	1,585
	(Includes an undetermined amount of "patent leather",) on which duties are being reduced	5,778
60415-1	Pinseal leather made from seal skin	
	United Kingdom.....	18*
	France.....	1
	U.S.A.....	1
		20
60420-1	Crust oil leather, for use in manufacturing chamois leather	
	United Kingdom.....	19*
	U.S.A.....	1
		20
60430-1	Alum tanned horsehide leather for use in the manufacture of baseballs	
	U.S.A.....	62*
		62
60510-1	Genuine reptile leathers	
	United Kingdom.....	7*
	France.....	4
	West Germany.....	2
	Sweden.....	1
	Japan.....	3
	Mexico.....	1
	U.S.A.....	125
		143

⁽¹⁾Imports already entering duty free from B.P. or M.F.N. sources are marked with an asterisk.

Item	Description	(\$000)
60700-1	Leather, n.o.p., when imported by manufacturers of gloves or leather clothing, for use exclusively in manufacturing gloves or leather clothing in their own factories	
	United Kingdom.....	1,110*
	Ireland.....	1
	Denmark.....	9
	France.....	125
	Spain.....	7
	Iran.....	4
	Mainland China.....	24
	Brazil.....	7
	U.S.A.....	6,839
		<u>8,126</u>
60805-1	East India kip leather, not further finished than tanned	
	United Kingdom.....	44*
	France.....	2
	India.....	7*
	Pakistan.....	6*
		<u>59</u>
60810-1	Sheepskin and goatskin leather, not further finished than tanned, when imported by tanners for processing in their own factories	
	United Kingdom.....	27*
	West Germany.....	1
	India.....	75*
	U.S.A.....	2
		<u>105</u>
60900-1	Belting, of leather	
	United Kingdom.....	44
	West Germany.....	20
	Netherlands.....	1
	Japan.....	1
	U.S.A.....	10
		<u>76</u>
	Total of category (b) (includes "patent-leather").....	<u>14,389</u>
	Total of imports under category (b) which enter duty free from B.P. and M.F.N. sources.....	<u>1,376</u>
SUMMARY OF LEATHER IMPORTS		
		(\$000)
Total leather imports.....		19,685
Of which: already duty-free.....	3,967	
duties being reduced.....	<u>1,523</u>	5,490
Dutiable imports on which there is no reduction in duty.....		<u>14,195</u>

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967-68

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

WEDNESDAY, JANUARY 31, 1968

RESPECTING

Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

Messrs. John Richard, Counsel, and Gordon Hooper, Customs Consultant.
From the Department of Finance: Dr. C. A. Annis, Director of Tariffs.
From the Department of Industry: Mr. J. McKennirey, Machinery Branch.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hees,	Mackasey,
Beaulieu,	Irvine,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Laflamme,	Monteith,
<i>Cowichan-The Islands</i>),	Lambert,	More (<i>Regina City</i>),
Cantin,	Latulippe,	Noël,
Comtois,	Lind,	Thompson,
Flemming,	Macdonald (<i>Rosedale</i>),	Wahn.
Gilbert,		

Dorothy F. Ballantine,

Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, January 31, 1968.

(27)

The Standing Committee on Finance, Trade and Economic Affairs met at 3.45 p.m. this day, the Vice-Chairman, Mr. Clermont, presiding.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gilbert, Gray, Irvine, Lambert, Latulippe, Macdonald (*Rosedale*), McLean (*Charlotte*), More (*Regina City*)—(11).

In attendance: Messrs. John Richard, Counsel and Gordon Hooper, Customs Consultant. *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs. *From the Department of Industry:* Messrs. J. McKennirey, Machinery Branch and L. F. Drahotsky, Chief, Commercial Policy Division. *From the Department of Trade and Commerce:* Mr. A. R. Porter, Office of Trade Relations.

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff resolution.

The Vice-Chairman introduced the witnesses, Messrs. Richard and Hooper, and at his request Mr. Richard summarized the brief. (*See Appendix O*)

At 4.00 p.m. the Chairman took the Chair.

At the request of the Chairman, Messrs. Annis and McKennirey commented on the brief, and were questioned.

Messrs. Richard and Hooper were questioned and Messrs. McKennirey and Annis also answered questions.

In answering questions, Mr. Hooper tabled an additional submission entitled *Regarding the Meaning and Application of the Phrase Class or Kind Made (Not Made) in Canada* which, by order of the Committee, is attached as *Appendix P*.

In accordance with the decision of January 18, 1968, information supplied in answer to a question of the Chairman is attached as *Appendix Q*.

At 6.05 p.m., the questioning having been concluded, the Chairman thanked the witnesses and the Committee adjourned to 11.00 a.m., Thursday, February 1, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Wednesday, January 31, 1968.

• 1550

The Vice-Chairman: Members of the Committee, we have for presentation this afternoon a brief from a number of importers of machinery and equipment. Mr. Gordon Hooper, Customs Consultant, and Mr. John Richard of Gowling, MacTavish, Osborne and Henderson, will present the brief, make any further comments they deem advisable, and endeavour to answer your question.

I understand that Mr. Richard will commence by summarizing the brief which, I understand, was delivered in English and French to the members of this Committee last week.

[Translation]

Mr. John Richard (Gowling, MacTavish, Osborne & Henderson): Mr. Chairman, members of the Committee, I thank you for having invited myself and Mr. Hooper to appear before you. I will briefly sum up the brief we are presenting to you and Mr. Hooper will make supplementary comments.

[English]

Mr. Chairman and members of the Committee, we thank you for your invitation to appear before you. I will summarize the brief which Mr. Hooper and I have prepared and following my remarks Mr. Hooper will have some supplementary comments to make.

We have set out in the first part of our brief the Ways and Means Resolutions on the Customs Tariff tabled by the Minister of Finance on November 6, 1967, concerning tariff item 42700-1. Our comments this afternoon are directed to that tariff item proposal only.

The tariff item introduced by the Minister of Finance and the Minister of Industry in the House of Commons Debates held on December 12, 1967 also explains the purpose and intent of this proposed item and referred to it in the context of a machinery program.

The first point that we wish to make is that this machinery program should encourage the

development not only of an efficient machinery industry in Canada but also encourage the development of other sectors of the Canadian industry such as those that require machines and accessories for the efficiency and expansion of their own industry.

The next thing that we wish to note is that proposed tariff item 42700-1 and its proviso purport to give effect to an undertaking given by Canada pursuant to Article 28 of the GATT Agreement of 1947. There is no doubt when one reads the Minister's statement and some of the background on these negotiations that this proviso is proposed to Parliament in order to give effect to the undertaking given by Canada at the Kennedy Round negotiations. It represents a concession by Canada to its trading partners and, therefore, is intended to benefit exporting countries, and as a corollary to benefit not only importers of machines and equipment in Canada but also the users of such machines and equipment in Canada.

• 1555

We have attached as Appendix "A" what we understand to be the text of the agreement or undertaking given by Canada pursuant to Article 28 of the GATT Agreement. This is, as we understand it, the text of the agreement in which Canada has made its undertaking to its trading partners and, therefore, this is what we are considering when examining the machinery program and, in particular, proposed tariff item 42700-1.

The Minister of Industry in the House of Commons debates on December 12, 1967 admitted and recognized that this undertaking was given to enable Canada to pay for tariff concessions offered by Canada's major trading partners in the Kennedy Round. Therefore, this undertaking and this proposed machinery tariff are concessions for the benefit of countries exporting machinery classifiable under this proposed tariff item. In fact—and this appears from the text of the undertaking as well as from the statements of the Minister of Finance, the Minister of Industry and other

officials during the course of these hearings—Canada has made an international undertaking in the context of the Kennedy Round negotiations at GATT that the average incidence of the duties on all imports under the proposed tariff item 42700-1 from countries entitled to the Most-Favoured-Nation tariff shall not exceed 9 per cent ad valorem in any calendar year.

The Minister in his statement, a text of which I have set out in our brief, refers to the effect of this concession. He says in part, and I am quoting from the *Debates* of December 12, 1967:

As a consequence, Canada gave an undertaking that the average annual incidence of m.f.n. duty under 42700-1 would not exceed 9 per cent. This undertaking is tantamount to saying that at least 40 per cent, by value, of future m.f.n. imports under 42700-1 will consist of machinery not available from production in Canada and consequently duty will not be collected on them.

As presently proposed, there is nothing in the proviso to proposed tariff item 42700-1 which refers to this undertaking or, in our view, which gives effect to this undertaking. This is the first major point in our submission. As presently worded, the proviso gives no guarantee that proposed tariff item 42700-1 will in fact lead to a reduction in total duties collected on the machinery involved to a level of at least 9 per cent on importations from MFN countries. Now the Minister of Industry in the *Debates* in the House of Commons on December 12, 1967 sought to allay the concern of exporters and users of machinery by referring to the percentage of machinery imports during recent years. In our respectful submission, the Minister had no grounds to form an opinion as to the percentage of imports of machinery which will in fact be held to be duty free. We say this for the following reason. The figures and percentages which the Minister relied on—are based, and he said so in his own statement, on a test of “made” or “not made” in Canada. This test of made or not made in Canada is not carried forward in the new proposed item. The test in the new proposed item is that of availability from production in Canada, which the Minister has said is something quite different than the test of made and not made which he considers to be a discredited test. Therefore the figures

which he presented to the House of Commons, which were based on made and not made, do not necessarily have any relevance whatsoever when a new test of availability from production in Canada is to be put into force. This international undertaking which has been given by Canada and the guarantee insisted upon by its trading partners does not form part of the domestic law of Canada since no reference to it is made in the proposed tariff item or its proviso.

• 1600

The second major point which we wish to make is the following. We would ask the members of the Committee to note that the proviso to the proposed tariff item 42700-1 provides for two basic tests when consideration is being given to applications for remission. The first test is whether the goods are available from production in Canada. We ask you to note that no criteria, or no definition of availability from production in Canada, are proposed in the proposed tariff item. The second test is that of public interest.

In my brief I refer to the statement by the Minister of Industry, where he makes this very clear in the *debates* of December 12, 1967, that these are the two tests that must be met.

I ask you, then, to refer back to the agreement or undertaking which we understand Canada has given to its trading partners, and nowhere in the undertaking given by Canada is any reference made to the criterion of public interest. It is, therefore, our submission that the proviso to proposed tariff item 42700-1 contains a test or a criterion which was not agreed upon during the GATT negotiations and which was not contained in the undertaking given by Canada.

This test of public interest, if applied as suggested by the Minister of Industry, could mean that an importer or user of machinery who otherwise would be entitled to free entry of the machinery on the basis that it was not available from production in Canada would be disentitled to such free entry by reason of a decision of the Advisory Board, the Review Board or the Minister of Industry that entry free of duty is not in the public interest. This phrase, or this expression, “in the public interest” is a broad and, in our view, arbitrary and discriminatory provision which was not intended in the original undertaking given by Canada to its trading partners.

Mr. Chairman, members of the Committee, our final submission relates to the procedure

for remission of duty under the proposed tariff item and, in particular, the provision for a right of appeal from the finding as to availability of the goods from production in Canada. We ask you to note that the decision to remit duty is to be made by the Governor in Council on the recommendation of the Minister of Industry. In order to assist him in making a recommendation, the Minister of Industry has stated he will constitute an Advisory Board and a Review Board. The Advisory Board and the Review Board will be established by the Governor in Council pursuant to the Department of Industry Act and, I would imagine, pursuant to the provisions of section 15 of the Department of Industry Act which reads as follows:

• 1605

The Governor in Council may establish advisory and other committees to advise or aid the Minister or to perform such duties and exercise such powers as the Governor in Council may specify, and may fix the remuneration and expenses to be paid to the person so appointed.

It is clear, in our view, that both the Advisory Board and the Review Board are merely advisory boards and that the Minister of Industry is not bound by their findings or recommendations. And here I refer to the statement of the Minister of Industry in the House of Commons on December 12, 1967, *Hansard*, page 5332.

Now, it also appears that the Advisory Board will be comprised of a Chairman and the deputy ministers of Industry, Finance, Trade and Commerce and National Revenue, and will be assisted by branches of the Department of Industry. At present there appears, Mr. Chairman, to be no provision to give interested parties notice of any hearing and the opportunity to be heard. There is no provision that we know of for a public hearing or the opportunity to present evidence or to test any information upon which the Board or the Review Board, may decide to rely, nor is there any provision for the publication of the findings and recommendations of either the Board, the Review Board, or the Minister.

It would further appear that all the Advisory Board or the Review Board will have before it on which to make a finding and a recommendation will be the information and reports prepared for the Board by specialized branches of the Department of Industry. In our view, a program of such major signifi-

cance and involving goods amounting to approximately \$700 million in import value should be administered in an open manner and the opportunity and right given to interested parties to appear and to be heard.

It should also provide for an effective right of appeal on both fact and law to an independent tribunal. The Minister would then be bound by the findings of the Advisory Board, the Review Board and the independent appellate tribunal. We have suggested that The Exchequer Court of Canada could be constituted as the independent appellate tribunal as it is presently constituted on appeals from the Tariff Board under the Customs Act. But we do not necessarily suggest that is the actual independent appellate tribunal which should be constituted; it is merely a proposal.

Our proposal regarding the publication of decisions and the right to appeal to an independent tribunal are supported by Article X of GATT Agreement of 1947 and we have attached this as Appendix B to our brief.

Mr. Chairman, those are the only comments I wish to make by way of summary of the brief we have presented, and it may be that Mr. Hooper may wish to make some supplementary comments at your pleasure.

The Chairman: Thank you, Mr. Richard. Unless you would like to have your colleague, Mr. Hooper, join you in presenting your initial statement, I will ask for any preliminary comments there might be, first from Dr. Annis and second from Mr. McKennirey.

Dr. C. A. Annis (Director of Tariffs, Department of Finance): Thank you, Mr. Chairman. Much of what Mr. Richard has said involves matters of policy which I will try to avoid, but there are two or three places where it seems to me he has made statements of fact which I might usefully develop a little further or add to.

First, concerning his statement of belief that in the administration of the machinery program due weight should be given to the interests of users of machinery, with this I am sure all concerned will agree completely. Certainly officials of the departments concerned do. Our ministers are on record stating this, and I am sure that others would.

• 1610

The first point I would like to modify or, to some extent I suppose, quarrel with, is the interpretation Mr. Richard has put on a matter of fact which arises at the bottom of page

2 of his brief. There he said that the proposed tariff item 42700-1 and its proviso purport to give effect to the undertaking given by Canada and appearing in the GATT Article XXVIII settlement which he has reproduced in the appendix. I am not sure that I am interpreting that correctly, but it seems to me that this says that tariff item 42700-1 as it stands in the Kennedy Round schedule and in the Canadian legislation—the Resolutions—implementing that Kennedy Round schedule would purport to give effect to what appears in the Gatt Article XXVIII settlement.

Now, if this is what is meant, then I would say this is not quite correct. Actually the situation is that the Resolutions before the Committee do implement and, I would suggest, implement fully the GATT commitment that was made and which appears in the schedule to the Kennedy Round settlement.

The Article XXVII settlement is a somewhat different matter. Prior to the Kennedy Round, Canada had certain undertakings with respect to machinery in which we had bound a rate not to exceed $7\frac{1}{2}$ per cent on a wide range of machinery of a class or kind not made in Canada. In order to implement this machinery program to which Mr. Drury has referred, it was necessary to re-negotiate that commitment to secure the acceptance of our trading partners to having it, in effect, wiped off the books. And the commitment that appears in the Article XXVIII settlement, specifically the commitment with respect to the 90 per cent average, is really a substitution for the previous commitment to maintain a rate of not more than $7\frac{1}{2}$ per cent in respect of machinery of a class or kind not made in Canada.

So, I would like to make that distinction. Incidentally,—it may be thought that I am trying to split hairs, but it seems to me that the point is worth making—it also is not quite correct to say, as is said in the brief, that Canada has made a commitment that the average rate of duty under this items shall not exceed 9 per cent *ad valorem* in any calendar year. The statement of intent is made that it is the intent of the Canadian government that the rate not exceed 9 per cent in any given year, and if it does, then remedial action will be taken. Perhaps that is splitting hairs but there is a difference, and it seems to me that the distinction is worth making.

Mr. Ballard: Dr. Annis, I wonder if you could explain that point a little further?

Dr. Annis: Let me put it this way. If Canada had made a commitment, an undertaking, that the average rate of duty under the new item 42700-1 would not exceed 9 per cent in any given year, then suppose in some year, let us say 1969, it should turn out to be 9.3 per cent, we would be in breach of our obligations. But in fact, if it turns out in a given year to be 9.3 per cent, we have not breached an obligation; we have created a situation in which we have an obligation to undertake remedial action. The remedial action is not defined. It would be open to the Canadian government in those circumstances to decide what to do, but they would have an obligation to do something to ensure that the rate of duty is brought down again.

• 1615

Mr. Ballard: Dr. Annis, would this come about as a result of, say, a disproportionate importation of higher dutiable items? Is this how you would exceed it?

Dr. Annis: Yes, if it came to pass it would be because of that.

Mr. Ballard: And would the remedial action be retroactive?

Dr. Annis: No, there is no obligation in the agreement to make it retroactive.

Mr. Lambert: Would it be unfair to suggest that this might be an incentive really to consider public interest in the last quarter of a year in which the averages seem to be running higher than 9 per cent, and by the remission in the last quarter reduce the annual average?

Mr. Annis: It could be, yes. It would be surprising, but in terms of expectation it is expected that this problem will never arise.

Mr. Lambert: That may be so, but I would put it to you, Dr. Annis, and this may be just a little bit beyond your responsibilities. This might be a very compelling motive from the point of view of the Governor in Council to grant remission in appropriate cases, say, in the last quarter of the year in which the average was running rather high. The price might be somewhat less than the remedial action it might have to take, as remission is a one-shot affair and remedial action is perhaps rather more permanent.

Mr. J. J. McKennirey (Director, Machinery Branch, Department of Industry): Mr. Chairman, in order for the average incidence to be

9 per cent or more it would mean that 60 per cent of the imports under item 42700-1 in any one year would have to be deemed to be available from production in Canada.

This is contrasted to the distribution, which we shall talk about later with the "made" and "not made" arrangements, which are currently at 65 per cent and 35 per cent, the 65 per cent being deemed to be "not made in Canada".

You will recall in earlier testimony I advised that there are no reasonable grounds whatsoever for assuming that the percentage of machinery coming into Canada that would be deemed to be available in Canada from Canadian production would be anywhere near 60 per cent. There are simply no grounds for that.

The Chairman: Could we have that stated again?

At the present time what percentage of Canadian machinery imports enter duty free under a "not made" in Canada category?

Mr. McKennirey: The statistics are kept by tariff item for, say, 1966, and under the 1966 breakdown the distribution was 65 per cent "not made" and 35 per cent "made".

The Chairman: So, 65 per cent of the machinery imported into Canada in 1966 entered duty free, being deemed "not made in Canada."

Mr. McKennirey: No, no. I am sorry sir, it entered at 7½ per cent.

The Chairman: It entered at 7½ per cent being deemed "not made in Canada" and 35 per cent entered at the higher rate.

Mr. More (Regina City): What difference would the removal of the 10 per cent of the market feature make in that ratio?

Mr. McKennirey: Excuse me?

Mr. More (Regina City): A manufacturer must have 10 per cent of the market to claim "made in Canada"; removal of that would have made what difference in the ratio for 1966? Has that been calculated?

Mr. McKennirey: Mr. Chairman, we investigated that matter very carefully. First, any machinery manufacturer in Canada who can possibly get the higher rate applying to the products he manufactures normally can be expected to seek a "made in Canada" ruling. There are some exceptions, of course, where

because of the high volume of importation of parts he will not seek the ruling, but generally it is well worth his time to seek the ruling.

In a careful analysis of the machinery industry we found very few companies engaged in production in Canada that have not sought "made in Canada" rulings. There are some, it is true.

Conversely, there are some companies that—I have already said this—do not presently have a "made in Canada" ruling, but they will enjoy the 15 per cent protection. Our considered conclusion was that on balance it would about wash out and there were some cases where the "not made" items would be subject to 15 per cent protection, and there were some cases where items were coming into the country deemed to be "made in Canada" that really were not available for production in Canada.

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The Chairman: I just wish to clarify this matter before we permit you gentlemen to finish your preliminary comments.

You have told us that 65 per cent entered as a class "not made in Canada" in 1966 subject to 7½ per cent duty.

Mr. McKennirey: Or free if it was BP.

The Chairman: Or free, and 35 per cent "made in Canada" and therefore at the higher rate.

I believe Dr. Annis told us, but for the incidence of duty on machinery to exceed 9 per cent *ad valorem* what per cent of the imports of machinery would have to enter?

Mr. McKennirey: It would have to be adjudged "available in Canada".

The Chairman: "Available in Canada".

Mr. McKennirey: Sixty per cent.

The Chairman: Your contention is there would have to be a considerable shift.

Mr. McKennirey: There are no grounds whatsoever for assuming it would ever take place. The shift would have to be from a situation now where 35 per cent of it is roughly in the same category, so it will be deemed "not available"; it would have to move up to 60 per cent.

The Chairman: It would have to move roughly from 35 per cent to 60 per cent?

Mr. McKennirey: That is right. I am sorry, I should not have said deemed "not available", I should have said deemed "available".

The Chairman: Perhaps we should see if Dr. Annis has completed his preliminary comments, and if so we will return to you, Mr. McKennirey.

Dr. Annis: I think there is only one other point on which I could usefully comment, Mr. Chairman, and it is that in his statement Mr. Richard emphasized a point which is made on page 4 of the brief, and he emphasized it in his oral statement, that the 9 per cent commitment forms no part of the domestic law of Canada. This, of course, is perfectly true. My point is that the way in which it was said seemed to me, at least, to carry an implication that this was unusual or even improper. I would point out that that implication certainly would not be justified.

It should be noted, in particular, in this connection, that in previous undertakings under the GATT—and there have been five previous rounds of negotiations—and also in our previous bilateral agreements with the United States, of which there have been three—two since the Reciprocal Trade Agreements Act of 1934 was passed—in each case the Canadian tariff concessions were introduced by Order in Council, not by statute. Therefore, the traditional pattern has been to implement our commitments under GATT agreements, and other agreements of this sort, not by statute but by Order in Council.

The exceptional measure that is proposed this time is of implementing the tariff concessions by and large by statute.

Those are the only points that I wish to make, Mr. Chairman.

The Chairman: Mr. McKennirey, have you any further preliminary comments?

Mr. McKennirey: Mr. Chairman I have just done a little elementary arithmetic. If you were to apply the percentages of 65-35 against the new rates and assume that 35 per cent of the machinery now coming into Canada, which was formerly deemed "made in Canada", will be of a class or of a type that will be deemed to be available from Canadian production in future, the average incidence would be 5.25 per cent. This gives some indication of how far this thing would have to move before we would get into this danger zone of mine.

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My other comment is on the point that was made that there was no provision for publicity on the findings of the Advisory Board and that there were to be no public hearings. It is true that under the procedure contemplated in the machinery program there were no formal public hearings. Importers and machinery builders have completely unrestricted access to the officials in the department concerned with implementing the program. There are no reasons that whatever information they may be seeking—apart from that which is commercially confidential—could not be disclosed to them.

As I have indicated before, in talking to the representatives of importers and builders they have been assured that they will get complete service in this respect.

Roughly the same comment applies to the findings. The administrative procedure involved in attempting to advise people in detail of the decisions that are made on a day-to-day and a week-to-week basis is so cumbersome that it would not be useful to anyone.

Therefore, we were planning to make these findings available in some way that would not involve a great deal of administrative difficulty.

I thought that I should make those two points.

The Chairman: How would they be available? Could Mr. Hooper go and look up the rulings?

Mr. McKennirey: If Mr. Hooper represents an importer and is anxious to find out whether or not a particular type of machine is going to be deemed "available" or "not available", he can come to the Department of Industry and ask what have been the findings of the board to date on machinery in that range.

Furthermore, if he represents an importer who has a particular machine in mind even before he has purchased it, or placed it on order, he can make it the subject of an application for remission, and can get advice from the Minister on it.

Machinery builders, likewise, can come to the Department of Industry and ask relative to any particular range or type of machine that they may be building, whether or not it is being found "not available", or what is being found "not available".

The Chairman: How complete will be the information that the advisory board or the review board will have available to them, on which to base their recommendations?

Mr. McKennirey: I am sorry, I did not hear your question, Mr. Chairman.

The Chairman: Mr. Richard in his brief cast some doubt—I think I can put it that way not unfairly—on the depth, or range, or details, or scope of the information that the advisory board or the review board would have available to them as a basis for their recommendations to the Minister. How complete will the information be?

Mr. McKennirey: I wonder how much more complete it might be, Mr. Chairman, in respect that the machinery industry has been asked to supply to, and has registered with, the Department a very comprehensive, detailed description of their total capability and the types of machines they supply. This is readily retrievable, so that when a decision has to be made on whether or not a particular machine is available from Canadian production we can refer to this most comprehensive survey in the machinery industry.

The Chairman: Where is this kept?

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Mr. McKennirey: It is kept in a data bank in the Department of Industry.

The Chairman: Has this a computer application?

Mr. McKennirey: No, sir; it is easier to use the microfilm type of approach, indexed in a very detailed way.

The Chairman: Is this to be up-dated continuously, or have you got the information on a one-shot basis.

Mr. McKennirey: It is being up-dated continuously. The machinery industry, of course, is becoming increasingly aware of the importance of keeping it up-dated and they are urged to volunteer any information they have that might be helpful.

Now, what happens in practice is that the characteristics of the machine in question and those of the machines that are available from Canadian production are tabulated, and engineers then spot the salient differences and indicate these to the board.

The Chairman: Do you gentlemen have any preliminary remarks by way of reply, or

should we pass directly to questions from the members?

Mr. Richard: It may be convenient, Mr. Chairman, with your permission, to make a brief reply to a few statements made by Dr. Annis and Mr. McKennirey.

First of all, I want it understood that I—it was not the intention either of Mr. Hooper or myself in this brief to have innuendos or veiled implications. We are merely putting forward what we understand the procedure to be, from the information that was made available to us and the material that we have available.

First of all, Dr. Annis qualified one statement as perhaps splitting hairs. This was the distinction that the undertaking, or the agreement, given pursuant to Article 28 of GATT was merely worded in an "intention" and therefore not an undertaking binding on Canada. I leave the members of the Committee to read what I call the undertaking or the agreement for themselves. It is in Appendix A. They can make their own decision on that.

The Chairman: Appendix A quotes exactly what portion of the...

Mr. Richard: It quotes a portion of what we understand to be the undertaking given by Canada, pursuant to Article 28 of GATT. Dr. Annis is in a better position than are we to confirm this.

Mr. More (Regina City): May I ask a supplementary question at this stage. It was my understanding that Dr. Annis said that we had re-negotiated that undertaking. Am I right or wrong in that?

Dr. Annis: We re-negotiated an earlier undertaking, sir.

Mr. More (Regina City): I beg your pardon.

Dr. Annis: We had re-negotiated an earlier undertaking which bound certain rates at 7½ per cent. What is quoted in Appendix A...

Mr. More (Regina City): Under Article 28?

Dr. Annis: Yes; under Article 28.

Mr. More (Regina City): Which you re-negotiated?

Dr. Annis: We re-negotiated a commitment, applicable up until January 1st, that the rate of duty on certain machinery of a class or kind not made in Canada would not exceed 7½ per cent; and we substituted, for those

previous commitments, the commitment which Mr. Richard has quite accurately reproduced in Appendix A to his brief. There is no question about the accuracy of that. The only question of which we...

The Chairman: I just wanted to get the exact subsections which Appendix A reflect. Mr. Richard was very helpful in giving us the exact text.

Dr. Annis: The only place at which there was a difference of emphasis or a little hair-splitting between Mr. Richard and myself was that his brief refers to...

The Chairman: Page 4 of the brief refers to an undertaking.

Dr. Annis: ...an undertaking that the average rate of duty under 42700-1 will lead to a reduction in total duties collected on the machinery involved to a level of at least 9 per cent. In saying that I was qualifying that a little—hair-splitting, if you like. I was referring to the fact that in the undertaking, as reproduced in his Appendix A, it says that it is the intention of the Canadian government that the average incidence of the duties, after taking account of the remissions, shall not exceed 9 per cent. That is a statement of intention, that is not an undertaking in the sense of a guarantee. Then it goes on to say, provided further that if in any year it does exceed 9 per cent, then:

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... the Government of Canada shall take immediate and effective remedial measures."

In other words, if it exceeds 9 per cent in a given year there is an obligation, and this is a definite commitment to take remedial action.

The Chairman: Perhaps we should return to Mr. Richard so that we can move on to the questions.

Mr. Richard: Mr. Chairman, I do not want to put Dr. Annis in an embarrassing position, but I want to refer to a statement made by the Minister of Industry when he was speaking on 12 December, 1967, to this proposal. This appears at page 5330 of *Hansard* at the bottom of the first column, where it says:

As a consequence, Canada gave an undertaking that the average annual incidence of MFN duty under 42700-1 would not exceed 9 per cent.

I merely quote the Minister to show that the words that I have used in my brief are supported by higher authority.

Dr. Annis: Touché.

Mr. Richard: I may add, Mr. Chairman, that some of our trading partners, and particularly the United States of America, consider this to be binding. I refer to a governmental publication which is in the United States Embassy's library in Ottawa. It is entitled, "Report on United States Negotiations, Office of the Special Representative for Trade Negotiations". On page 22 it says:

To assure that a large part of this "not made in Canada" machinery, in which United States trade totaled \$235 million in 1964, will henceforth enter free, Canada undertook to bind the average incidence of duty on all production machinery at 9 per cent.

This is an interpretation which has been given to this undertaking by other countries.

Mr. Lambert: You said production machinery.

Mr. Richard: Yes.

Mr. Lambert: I would put it to you that there is a significant volume of machinery under 42700-1 which will not be production machinery in any sense, unless you consider blenders, mixers, hair dryers, and what have you, to be production machinery. A little gap, shall we say, in the nomenclature.

Mr. Richard: I agree with you, Mr. Lambert, on that statement.

Dr. Annis: May I also comment briefly. I agree; I think that a good many of us, both officials and possibly even ministers, have sometimes been guilty of using shortened language and saying "production machinery" when what they meant was "any machinery which is classified under the new item 42700-1" which, as you quite correctly say, is really broader than "production machinery". It includes a lot of construction machinery; it includes vending machines, blenders, and so on, to which you have referred.

Mr. Lambert: It creates some difficulties in logic, I must confess, when toasters and frying pans do not get caught in 42700-1, and yet blenders, which stand alongside them, do.

The Chairman: Perhaps we can now move on to questions. I have Mr. Macdonald on my list, but he has been called away. Then I have Mr. Clermont. Other members who have questions may signify in the usual manner.

[Translation]

Mr. Clermont: Mr. Chairman, Mr. Richard is here representing importers of machines.

Mr. Richard: The brief is submitted by Mr. Hooper and myself on behalf of certain importers of machines.

Mr. Clermont: Would it be indiscreet to ask the names of some of these importers that you are representing? If the question is indiscreet, it is up to witness to say so.

• 1640

Mr. Richard: I shall consult with Mr. Hooper before giving any names. I submit that their names would not change anything in the validity of the arguments we have submitted.

Mr. Clermont: To me it might represent some difficulty.

Mr. Richard: I will ask Mr. Hooper to answer this question for you, Mr. Clermont.

[English]

Mr. G. Hooper (Customs Consultant, Gowling, MacTavish, Osborne & Henderson): We represent the Quebec Asbestos Mining Association. They are primarily importers under the mining schedule but at times they import under the general machinery item, that is, when the machines are not for their use exclusively or do not meet the provisions of the tariff, and therefore they have to come under the general item.

We also represent manufacturers of machinery and tools in Canada, and part of their business is importing.

We also represent dealers and distributors. I suppose I might say that in all, we represent 25 to 30 firms that are interested in the implications of, and bring in goods under tariff item 42700-1. Those companies are located from the West Coast to the Province of Quebec.

[Translation]

Mr. Clermont: Mr. Chairman, on page 5 in connection with the public interest criteria I read the following:

"The criteria of public interest if applied as suggested by the Minister of

Industry might have as an affect that an importer of a user of a machine who had a right to import free because the machine is not available in Canada, could be deprived of the right to import free following a decision of the Advisory Board, the Review Board or the Minister because they consider that the importing free is not in the public interest."

I continue:

"This is a very broad and arbitrary and discriminatory criterion. It was not foreseen when Canada committed herself with regard to the supplying countries."

Mr. Richard, even if the question of public interest was not provided for after the Kennedy Round Agreement, do you not think that the government has a right here to require certain criteria of availability or public interest to also protect certain sectors of the society other than the importers and those who use the machinery?

Mr. Richard: Mr. Clermont, referring to Appendix A, which is in English, because this is the only text I could get, I did not wish to translate an official text myself, there is no criteria of public interest.

Secondly, if a criterion as broad as that of public interest must enter into this tariff item, I would propose that this criterion be defined so that every one should know what it is, what the definition of this criterion is. The only comment I would make right now is that there is a criterion which is very broad. The Minister has recognized this. It is one of public interest and is not in any way defined in the legislation text we have.

• 1645

Mr. Clermont: How would you define public interest?

Mr. Richard: It is not up to me to define public interest. The Minister himself, since he proposed a criterion that he has entitled public interest, I think it is up to him to say what its definition should be.

Mr. Clermont: According to you, Mr. Richard, would you understand certain protection granted to thousands and thousands of people whose employment might depend on free entry?

Mr. Richard: Yes, with a very broad definition of this criterion, it could be interpreted

in that way. I do not think there are any limits to the definition of the public interest criterion. It is a question which is decided personally by the Minister at the time.

Mr. Clermont: You said "by the Minister at the time"?

Mr. Richard: I mean the Minister then in office.

Mr. Clermont: I think an enumeration was made with regard to public interest in Order in Council 1967-23(1). Some definitions are satisfactory and some are too broad. But certain definitions were given with regard to public interest.

Mr. Richard: You are talking about an Order in Council that I have not seen, that I do not have with me. All I can say, Mr. Clermont, I suspect that the definitions contained in the Order in Council do not limit the criterion of public interest, it only details certain circumstances of the public interest that might come into play. Being an Order in Council, of course, the criterion can be changed by another Order in Council.

Mr. Clermont: Just the same as law, as a statute, because Parliament being supreme it can also change legislation which we now have in the present statutes.

Mr. Richard: But there are other safeguards when legislation is submitted to Parliament.

Mr. Clermont: I think that the government is in its right in certain cases to not accept free entry of certain machinery and equipment to protect the jobs of thousands and thousands of people, because we had an example yesterday—not quite in the same field—where a firm or an enterprise had to close down in the Chatham district, I believe. The people were given a notice of one or two days. I think the government has the right in the public interest to see to it that certain machinery and equipment not be given free entry to protect the jobs of thousands of workers. Yesterday we had representatives of 49 companies who, according to their figures, represented 15,000 employees. The companies you represent here, Mr. Richard and Mr. Hooper, have how many employees?

• 1645

Mr. Richard: I could not say, Mr. Clermont, but I would like to point out that the customs duty contains a number of other tariff items

which can also affect the country's economy, and they contain no criterion of public interest.

Mr. Clermont: I understand the position of the two witnesses here and the interests they represent. I think that their ideas and ours will not meet. There will be no meeting of ideas here.

The second point I would like to discuss, Mr. Chairman, is the right of appeal. Mr. Hooper and Mr. Richard, what do you mean by an independent court or tribunal? Would the review board of three persons not be an independent tribunal or court?

Mr. Richard: I do not want to suggest that these members would not be independent of mind. All I say is that in their proposed form it is an advisory board only. The Minister admitted in the House of Commons that they would not be tied by the decisions of his advisory board or his review board. What we propose is an independent court in the sense that the Minister would be tied by the decision of this appeal body, of this council or court.

Mr. Clermont: Would this court also have to consider public interest?

Mr. Richard: No, we do not propose public interest, just availability.

Mr. Clermont: Then, the tribunal, the review board which the Minister of Industry has recommended, if the criterion of public interest were taken away, could take the same decisions?

Mr. Richard: No, it does not fulfil the same functions that we propose for our independent tribunal or court of appeal. It is very clear, according to the statements of the Minister, that these are only boards, councils and advisory tribunals and not legal or judicial, as is the Tariff Board today, which is a tribunal capable of giving rulings that bind the Minister.

Mr. Clermont: Talking about the Tariff Board, Mr. Richard, does your firm have the occasion to appear often? I am asking you this question, Mr. Hooper.

Mr. Richard: Yes, we have both appeared before this board on many occasions. If I understand the meaning of your question, our point is not to encourage other appeals to this board so that we can appear more often. I would like you to believe, Mr. Clermont, that

our representations are made for more valid reasons than that.

Mr. Clermont: Mr. Chairman, for the moment I will pass.

[English]

Mr. More (Regina City): Mr. Chairman, Mr. Clermont has just asked some questions I had in mind, but I would like to ask Mr. Richard if his objection to the review board is that its findings are not binding?

Mr. Richard: Yes, one of our objections or one of the points we want to make is that the findings of a board are not binding on the Minister on the question of availability.

Mr. More (Regina City): Mr. Chairman, I would then like to ask Mr. McKennirey if this board sat on an appeal from the Minister's decision after his advisory committee had advised him, would the hearing be open to the public or would it be a private hearing with the company that had protested? On what basis would it sit?

Mr. McKennirey: I think the concern of the Minister in a case like this would be for the interest of the parties involved. That is, if those who were appealing the case wished to keep it private, their wishes would be followed. It would be a matter of commercial confidentiality again, but in the event that the parties involved were not concerned that their own confidences be maintained, the Minister would have no reason for instructing the board or asking the board, to carry on in private. It would simply be a matter of the best interests of the parties involved.

• 1650

The Chairman: I think Mr. Richard wants to say something in reference to your question.

Mr. Richard: In a previous statement Mr. McKennirey stated that this review board is to be an *ad hoc* committee. I notice in his statement, which is recorded in the proceedings of Wednesday, January 17, 1968, at page 292 near the top of the right hand column, he is talking about the board and he says:

They intend to proceed on a pragmatic, informal basis and not to have official hearings, as it were.

This is on an *ad hoc* basis. History may repeat itself. I refer to Bill No. 229, which was introduced in the House of Commons in

1948, and Act to amend the Customs Act. Prior to 1948 the Tariff Board and the Board of Customs which preceded it, were strictly administrative tribunals whose decisions had no force or effect except by approval of the Minister or by approval of the Governor in Council, and this was recognized in a Supreme Court of Canada case. In 1948 a bill was introduced to change this and to make the Tariff Board a court of record. The explanatory notes to Bill No. C-229, accompanying the revisions of the Customs Act, to provide for an appeal as of right, I find interesting, if you will bear with me for a moment:

• 1655

Sections 49 to 53 to be repealed provide for an appeal from an appraiser's or a collector's decision as to value to a board of three-persons to be appointed *ad hoc*.

That is the former situation.

These boards were doubtless useful in the past but the modern businessman seems to prefer in practice, to appeal to the Dominion appraisers and the Minister or Deputy Minister. The combined effect of the preceding section and this one will be to enable him to do so, as of right, without being confused by the presence in the Act of the archaic and disused procedure set out in the Sections to be repealed.

It seems to me, Mr. Chairman, that we are now reviving what were stated in the explanatory notes to this Bill to be archaic and disused procedures. If you will look at appendix C, we have shown a history of appeal procedures.

Mr. Hooper: Mr. Chairman, Mr. More asked Mr. McKennirey about an appeal from the decision of the Minister of Industry. Mr. McKennirey has not until now indicated to the Committee that there was an appeal from the Minister.

Mr. More (Regina City): An advisory board and a review board; so that the purpose of a review board is to act as an appeal board, is it not, Mr. McKennirey?

Mr. McKennirey: It is to deal with appeals from the findings of the advisory board, yes—to the Minister.

Mr. Hooper: Then your statement to Mr. More was not correct. There is no appeal to the appeal board from a Minister's decision.

The Chairman: The stages are as follows: there is the initial advisory board; then the review board if the applicant is not happy; and then the Minister makes his own recommendation to the Governor in Council, who makes the final determination. Neither the advisory board nor the review board are bodies to which the Minister's own recommendation goes before the final determination. Am I right in that?

Mr. McKennirey: That is right.

The Chairman: However, it may be useful to clarify one point. Is it contemplated that someone not satisfied with the review board's determination could make direct representations to the Minister of Industry himself prior to the final decision's being made by the Governor in Council?

Mr. McKennirey: The Minister, in his statement on December 12, advised that when the machinery and equipment review board is of the opinion that remission should be granted in any case in which the advisory board has recommended to the contrary, the Minister of Industry would normally accept the review board's findings and recommend remission to the Governor in Council. Although it is theoretically possible for the Minister to set aside the findings of the review board, the motivation in establishing the review board is to have the findings on an independent tribunal, presumably with the intention of observing them.

Mr. Lamberg: Right here may I interrupt? This is precisely what was argued against in 1961. If you will recall, the proposed amendment to the Customs Tariff Act was that the Minister's decision would be final on findings of quantities in determining the class or kind.

A great hullabaloo was raised about that. The Senate struck out the clause in the Bill, which had been passed in the Commons, and amended it to provide for an appeal from the Minister's decision to the Tariff Board.

I put it to you that at the present time the application for remission will be on the basis of availability or non-availability and on public interest. The Minister will not have made a decision. The advisory board will advise him. It may go to the review board for a review of that advice, and there will be a recommendation to the Minister; and the Minister will then make his recommendation to the Governor in Council. But there is not one iota of appeal against any decision in this procedure.

• 1700

Mr. Richard, what are your comments on my analysis of this procedure?

Mr. Richard: I would have to agree with your analysis of the procedure, as the Chairman himself outlined earlier.

Mr. More (Regina City): This is what I would like to clear up. Perhaps I misunderstood in thinking that the review board would, in effect, be an appeal board; that where the advisory board's advice against remission had been accepted by the Minister and it was protested by the applicant the review board would review it. Surely all the advice given to the Minister by the advisory board does not go automatically to the review board for review? Is that contemplated?

Mr. McKennirey: Mr. Chairman, at some point there is always a final decision of the Tariff Board. There is no appeal from there. There is the Exchequer Court or, if you wish, the Supreme Court, but eventually you have a final court—you have a final adjudication. In this matter there is no precluding the petitioner from continuing to seek, through the political process, review of the case involved.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Is it possible for the applicant to appear before the review board?

Mr. Ballard: Mr. Chairman, is it quite accurate to make this statement. We have been informed several times that the Minister makes a final and unalterable decision under this new procedure. I am wondering where do you get the justification for saying that an appeal can be made from the Minister to the Exchequer Court, for example.

The Chairman: What Mr. McKennirey is trying to say is that further representations can be made...

Mr. Ballard: In the political arena; in the political sphere rather than in the judiciary?

The Chairman: Yes. Actually, I think we are getting into an area of policy with respect to which Mr. McKennirey, may have some difficulty because of his position as a public servant.

I think what Mr. McKennirey is trying to say is that if the review board renders a decision which is not acceptable to one or other of the parties they can then make representations to the Minister; and I presume—as you pointed out the other day, Mr. Lambert, that although they cannot appear in

person before the Cabinet, they could make representations to other ministers urging them, in their capacity as Governor in Council, not to accept the Minister's decision. Is that what you suggest?

Mr. Lambert: That is implicit in this, and I say it is the most repulsive form of procedure in that it is not what you know or what you represent but whom you know and how you represent it.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Mr. Chairman, can Mr. McKennirey tell me if there is contemplated any provision whereby someone who is appealing the decision of the Advisory Board and the Minister's decision could appear before the review board to argue their case?

Mr. McKennirey: Yes, sir. There is no reason why the review board would not consult with all parties involved.

Mr. Cameron (Nanaimo-Cowichan-The Islands): But would the parties be informed of the sittings of the review board?

Mr. McKennirey: Yes; I am sure they would.

The Chairman: Personally, I presume that the test of this procedure would be to what extent the Minister would not consider himself bound by the decisions either of the advisory board or of the review board. If a particular minister took a firm position and said, "As a matter of policy I will not depart from the advice given"—either by the advisory board or by the review board, as the case may be—then I suppose it could be argued that some of the problems that are being raised before us at this time would not arise. If a minister would not adopt or follow that policy, then...

• 1705

Mr. Cameron (Nanaimo-Cowichan-The Islands): I imagine that most ministers will be so bogged down with work that they will accept the advice of the review board.

Mr. Ballard: Mr. Chairman, I wonder if I could have this clarified a little more. I understand that prior to the coming into effect of this new procedure, an interested person would go through several steps, but his case could finally end up in the Exchequer Court, and presumably thence to the Supreme Court if it was necessary; but the final decision was an impartial decision that you could almost say was free from any political

implications or pressures. But under the new situation the final appeal to the judiciary is cut off and we are now putting one more field of endeavour under ministerial discretion. I ask Mr. Richard whether this is one of the points they are complaining about in their brief.

Mr. Richard: Certainly we are. It is one of the points—I would not want to say complaining—that we are raising in our brief, yes.

Mr. McKennirey: Mr. Chairman, I think perhaps it is well to recall that the Minister of Industry was quite straightforward on this point and on the reasons for introducing the program in his statement of December 12. He pointed out that with respect to finding made in Canada rulings it is very difficult to establish a statistical base for applying the 10 per cent rule. He stated:

When such situations arise at present, decisions as to what rate of duty will apply must be derived from strictly formal interpretations of the law rather than practical assessments of the factors involved.

Later on he went on to say:

Another important advantage of the machinery tariff proposal is that it will eliminate the use of distinctions in the Custom Tariff between machinery of "a class or kind made in Canada" and "not made" in respect of a major portion of our imports and thereby remove a long-standing source of appeals and litigation with corresponding problems for Canadian industry, and for customs administration as well.

And he went on to say:

The purpose of such "class or kind" distinctions in existing machinery tariff items, as stated at the time the most important of them were introduced was to provide for reduced rates on production machinery not directly competitive with machinery produced in Canada. Also, various statements made by Ministers at that time indicate that the words "class or kind" were to be subject to practical rather than legalistic interpretation. This was the basis of Customs interpretation applied until about 1950.

And he went on to the history of the way in which the matter has become the subject of litigation and concluded by saying:

In broad terms, the precedents established by litigation have resulted in a gradual movement away from applying the "class or kind" concept on the basis of practical judgment, towards narrow interpretations based on explicit legal determinations. The ever present possibility of further litigation tended to create uncertainty for machinery producers regarding those categories of machines which they could expect would be protected by the "made in Canada" rates. Similarly, importers would not be certain in respect of the duration of an existing "not made in Canada" rate. Because of these uncertainties, as well as the cost and delays involved in litigation, both machinery producers and users have made representations over the years that a more practical approach to the original objective of the "class or kind" provisions should be developed. In fact, some of the suggestions have been quite similar to the present machinery tariff program.

I think, Mr. Chairman, that what has become the subject today is the fact that there are two basic approaches to this matter, one being the legalistic approach and the other administrative. Admittedly there are fundamental differences between them. The issues that have been raised have to deal with the protection of the rights of the individuals involved.

This procedure which the Minister of Industry has outlined, providing for an advisory board with terms of reference that have been given to it by Governor in Council which are promulgated indicating what is meant by availability of public interest followed by a review board to see whether or not the findings of such an advisory board are sound, is a procedure which would appear to meet the demands of both importers and machinery builders over the years for a practical judgment which, at the same time, would respect the rights of the parties involved.

Mr. Lambert: Will you please answer this question, Mr. McKennirey, if you want to, if you do not feel that it goes beyond the question of administration and gets into the field of policy.

• 1710

Would you not agree with me that in essence the Minister's decision, or the Governor in Council's decision which is the same, as to availability—and that is one item—it used to be 10 per cent but today it is much less than that; it is availability, that there is no more appeal from that decision than there were any grounds or right of appeal in old Bill C-72 in 1961 as to the Minister's decision of 10 per cent in order to establish class or kind.

Now, this is going to be under your administration and I feel you might declare yourself competent to rule on it and to answer my question or say: "No, that really goes beyond my responsibility."

Mr. McKennirey: Mr. Chairman, I do not believe I am competent to answer that question. However, I think it may be of interest to note that remission can be sought from the Governor in Council under section 22 of the Financial Administration Act and it can be denied when it is sought under the Financial Administration Act. I suppose that the first denial does not necessarily mean continued denial.

Mr. Lambert: But under the Financial Administration Act, that is, as to public interest, that is a judgment decision and there is no real provision for appeal. But in this particular connection I am just drawing a similarity between the procedures and I seem to see a wheel having gone full circle.

Dr. Annis: Mr. Chairman, like Mr. McKennirey, I am not in a position to discuss policy matters here, but it seems to me there is one distinction worth noting in connection with the references that have been made to Bill C-72. Bill C-72 involved a tightening up of provisions. It was a taxing measure in the sense that it would have increased rates of duty on certain categories of goods.

The measure that is under discussion now is in the nature of a relieving measure. It seems to me that there is at least some basis for drawing a distinction when one is talking about what is properly reserved only to Parliament and what is a proper function of the Governor in Council; some basis for drawing a distinction between relieving measures and taxing measures.

I would not want to embark on a discussion of this. All I would do is to direct attention to

this distinction and suggest that it is a proper point for those who are competent to discuss policy matters to have in mind during the discussion of the subject.

Mr. Lambert: But with the greatest respect the point I was discussing was the decision "no appeal from the Minister's decision" on a class or kind quantity. And, at the time—I recall it very well because I participated in the debate in support of the bill as Parliamentary Secretary to the Minister involved—it was for administrative and, shall we say, effectiveness decisions from—I will not call it the trade but, shall we say, on behalf of importers and consultants to importers and so forth who wanted quick decisions. But all that was swept aside for the right of appeal.

Dr. Annis: I will agree, sir, with what you have said.

Mr. McKennirey: Mr. Chairman, it has been pointed out to me that with respect to the right of appeal from Tariff Board decisions, there is no appeal from Tariff Board findings of fact. In any circumstance where you are establishing the facts of availability and the facts of the characteristics of the machinery being imported, this is the area that you are working in but there is no appeal from Tariff Board matters of fact?

The Chairman: Mr. Richard wants to say something here.

Mr. Richard: I think it is better to put it on the other basis rather than with the accent on if there is an appeal on a question of law. Anyone who has appeared before the courts will know there are certain questions that appear to be questions of fact which can become questions of law.

The Chairman: Based on the ingenuity of counsel.

Mr. Richard: Yes. I would like to say on the question of publication of decisions, a statement made by Mr. McKennirey earlier, that really what is involved here in the publication of decisions is the name of the manufacturer and the name of the goods and possibly the model number. I remember when Mr. Finnigan was here yesterday and was testifying for the Machinery & Equipment Manufacturers' Association of Canada...

Mr. Hooper: Mr. Chambers.

27838—2½

Mr. Richard: ...Mr. Chambers with Mr. Finnigan—he said he thought that would identify the goods sufficiently for his purposes, as a manufacturer and an importer, and thought every one should be entitled to that. Since reference has been made to Bill C-72 by other parties, not by myself, I think it is interesting to note that in Bill C-72, Subsection (4) of Clause 2A reads as follows:

• 1715

(4) Any decision of the Minister with respect to the matters enumerated in subsection (3) hereof shall be published forthwith in the *Canada Gazette*.

And one of the matters enumerated in subsection (3), subparagraph (b), is the following:

(b) whether goods are custom-made to specifications, and whether adequate facilities exist in Canada for the economic production of such goods within a reasonable period of time.

Surely if this could be proposed in 1961 I do not see why it could not be done in 1967.

The Chairman: Mr. Richard, what volume of rulings do you expect would be made under this new setup, assuming that it continued on the basis proposed? How many rulings a month do you think could be made?

Mr. Richard: I do not know. This is something that the administration knows better than I do. All I am saying is that in my view there must be some way that the interested sections of the public know what the rulings are. I think it is all very well for us to say, while we are in Ottawa, that people can come in to see the Department of Industry and if the Department of Industry thinks they represent an importer or have a legitimate concern they will make certain files available to them. However, I can think of a case of someone in Vancouver, Alberta or Newfoundland not being too interested in coming to Ottawa to examine some rulings when the department or the government could publish these rulings and make them available to all interested persons throughout Canada. What problems would be involved in doing this I am not prepared to discuss.

The Chairman: This question has been raised before by a number of us and perhaps, Mr. McKennirey could review for us again the manner in which it is proposed this should be dealt with. First of all, will this be

something like a county registry office where anybody can go in, fill out a little slip of paper and get a series of rulings for the preceding year or preceding 10 years, or will he have to show that he is a bona fide importer or manufacturer? Will you answer inquiries in writing from other parts of the country? Just how are you going to run this?

Mr. McKennirey: Mr. Chairman, first I think we should point out that there are no rulings made, as such, that obtain for machinery for an indefinite period of time and that the principle on which the program operates is that a decision will be made with respect to each application for remission of duty for however many machines may be covered by an application. Should the circumstances regarding availability change in the succeeding weeks, the findings of the board, of course, would change accordingly, there will be decisions with respect to each individual application. During the past two weeks the average number of applications for remission of duty has been about 100 per day and, consequently, if you were to attempt to publish the total you would end up publishing the findings with respect to 100 applications and each finding is somewhat detailed.

• 1720

I beg to qualify or differ from the statement that has been made that it would be sufficient to merely quote a machinery model number. In many cases this would be meaningless and the people getting this information would still not be sure as to where the differences lay. In many cases quite a detailed statement of the differences would be necessary which, in practice, would mean that we would be publishing this great compendium of information per day, and how useful would it be for importers and machinery builders to comb through this on a daily basis? We discussed this with the interested parties and when they realized the task involved they readily acknowledged this was not the type of thing that would be useful to them.

The question, then, is, can some kind of practical method be developed to make sure that both importers and machinery builders are fully apprised? Taking them one at a time, with respect to the machinery builders the approach that seems to be emerging is that their associations or individual builders—normally their associations—will come in on a periodic basis and identify the areas of machinery where they would like to know

what has been happening with respect to remissions. This can be presented to them in quite a bit of detail very very readily because of the way in which the information is being kept.

The Chairman: Let us stop here. Does this mean there will be a special office where someone can look at all the microfilms? Will there be an index which will lead the interested party to the microfilm?

Mr. McKennirey: What we contemplated was that the individual who is interested—the association or the machinery builder—would come in and talk to an officer of the Department of Industry who deals with the industry regularly in any event and who would ascertain the information he requires. He would then go to the data bank and retrieve it for him while he waits.

The Chairman: What about somebody who inquires by letter?

Mr. McKennirey: In the case of an inquiry by letter, if the specific ranges of machinery involved have been indicated, he will be advised as to what the findings have been to date on machinery of that kind, if any have been made.

The Chairman: He does not have to attend in person?

Mr. McKennirey: He does not have to attend in person. Importers are in the same category. There is a tremendous range of machinery covered by the tariff item 42700-1 and the importers will normally be concerned with particular ranges and particular classes of machinery. If they are concerned they can also come in to ascertain whether or not any people have claimed to make this machinery available in Canada and can have any findings that have been made with respect to that machinery. The only problem here is not one of attempting to avoid disclosing information, it is really the practical problem of disseminating the information in a way in which it would be useful to everybody.

Mr. More (Regina City): Mr. Chairman, could I ask Mr. McKennirey one question? You can get a prior ruling now on what is happening under these circumstances. If an applicant—an importer—before he places his order asks you for advice, you can give him advice?

Mr. McKennirey: Yes, sir.

Mr. More (Regina City): But this was not done under previous arrangements? There might have been a legal...

Mr. McKennirey: Under previous arrangements, if he went to the Department of National Revenue and asked whether or not a particular machine fell into the class of made or not made...

Mr. More (Regina City): If there had been a previous ruling.

Mr. McKennirey: ...he could determine the classification. That is right.

Mr. More (Regina City): What happens if he gets a ruling that it is a class or kind not made in Canada and then places an order and it is not delivered until six months later, but in the meantime the situation has changed?

Mr. McKennirey: That has been foreseen and the decision was taken that where an applicant has applied for remission of duty and it has been found to be not available, he will be granted remission and the remission will stand for a given calendar period, sufficient to cover the time involved in getting delivery. In effect this is what is happening now. For example, if he expects to get delivery in six months then the Order in Council provides for that length of time.

Mr. More (Regina City): Mr. Chairman, I have always understood there is great objection by the people involved in these procedures about litigation, the time involved, being able to assess their position and know how to proceed. I am one who thought Bill C-72 was a pretty good bill and that it was not defeated because of the objection of people whose goods were being involved, but it was a political action taken at the time. I say that without any prejudice. That was my feeling about it and I am still of the same belief. I have always understood that people involved in this business wanted a procedure that would give them a more or less faster decision so that they would know where they stood, rather than becoming involved in litigation, and so on, to determine it. I have a feeling of amazement that the objection that has been registered so far in this Committee was only an attempt, it seemed to me, to make administrative decisions definite and quicker. I may be wrong, but that is my feeling.

• 1725

Mr. McKennirey: Mr. Chairman, the Canadian Manufacturers' Association who

represent both machinery builders and users of machinery in their brief last year, as I mentioned earlier, positively stated that they would like to see a program of the type that is now being introduced put in place, and they cited the British program as a precedent.

The Chairman: The British program? What is that?

Mr. McKennirey: The British had a similar program running from 1932 until about 18 months ago, at which time they discontinued it because the tariff rates on machinery fell to the level where it was no longer necessary to go through the administrative procedure.

Mr. More (Regina City): Your statement, as you say, applies to manufacturers and users of machinery. Apparently it does not apply to importers and sellers of machinery because their representations have not been in favour of the procedures outlined.

Mr. McKennirey: Mr. Chairman, I might point out that the vast bulk of the imports of machinery are handled by dealers in this country. These same machinery dealers have been in close contact with the Department of Industry for a period of over two years and when the program was announced by the Minister on December 12 they issued a press release endorsing the program, and they are very much in favour of it. I was very surprised that the Canadian Importers Association yesterday should actually make statements which seem to conflict with the Canadian machinery dealers, as various groups are doing.

Mr. More (Regina City): Are you sure they did? I would have no doubt about it, and the representatives today certainly do not agree.

The Chairman: I believe the Canadian Manufacturers Association will be appearing before us next Tuesday. We will then be able to pursue this further. I would like to recognize Mr. Latulippe, but before I do I wonder if Mr. Richard or Mr. Hooper have any comments regarding the points raised by Mr. More.

Mr. Hooper: Mr. Chairman, this comment has been made before about the interpretation of "class or kind", and Mr. McKennirey has repeated the Minister's statement in the House. I would like to answer and give some background on "class or kind", and also with respect to the dumping duty later on. It has

not been raised today but a number of statements have been made in the Committee hearings especially to the effect that the value for dumping duty purposes is on the date of shipment. That is not right. I think it might help the Committee.

Mr. Lambert: Perhaps we can have that as a separate item.

Mr. Hooper: Right, but I am just giving the reasons for having this material ready.

The question is was the term "class or kind", as interpreted by the Tariff Board and administered by the Customs since 1950, at variance with what was the well-known established import of those words prior to that date. We point out to the Committee that not one entry out of every 200,000 entries goes to the Tariff Board on appeal.

The Chairman: What is that figure again?

Mr. Hooper: Not one entry out of 200,000 goes to the Tariff Board on appeal from the port appraiser's decision, the dominion customs appraiser's decision or the Deputy Minister's decision. One way to determine if the "class or kind" tariff items were always interpreted. . .

The Chairman: Excuse me, Mr. Hooper, I am in the hands of the Committee but I note that you have been kind enough to type out your notes and they extend to some five pages. I am sure the information is very careful but I am wondering, in line with our general approach to these things, if you could not summarize some of these points. Perhaps the Committee would prefer to listen to your summary and they may want to have your complete views on this point printed, I do not know.

• 1730

Mr. Lambert: In the light of everything that has passed, I had anticipated that Mr. Hooper would make a comment on the discussion that has been going on relative to "class or kind" and the right of appeal, all the difficulties. I know Mr. Hooper has been here during the entirety of the hearings and he obviously has some additional representations to make. I am wondering whether he could indicate what they are and leave them with the Committee and we will print them in the proceedings. I would be quite prepared to move that they be printed as an appendix to today's proceedings.

The Chairman: There may be members of the Committee who have questions to raise on the specific points in your principal brief. As our time is somewhat limited it might be rather unfair to you, sir, if we do not give you a chance to deal with these points.

Mr. Hooper: Thank you, Mr. Chairman, I would be very glad to summarize.

In Appeal No. 272, an appeal taken by a Canadian manufacturer—Power Crane & Shovel Division, of Dominion Engineering—against the decision of the Deputy Minister of National Revenue that the size of lift trucks made in Canada were of a "class or kind made in Canada"; the Power Crane & Shovel Division contended before the Tariff Board that all power shovels were of a "class or kind made in Canada" and that the Department of National Revenue and the Department of Customs and Excise had no right to subdivide these shovels. I remember saying I would be very glad to take that interpretation because there was no doubt in my mind that on count they would not have any power shovel made in Canada. However, that was not accepted by the Tariff Board because they pointed that out to the company. The Tariff Board upheld the decision of the Deputy Minister in Appeal No. 272 that those sizes which were made in Canada should be held to be "made in Canada". . .

Mr. Lambert: I find that a little difficult to relate to what we have been discussing.

Mr. Hooper: I am sorry, Mr. Lambert, we are going back to the point about the "class or kind" and whether it was the same in 1950 as outlined there, and this was coming back to the practical interpretation of the words "class or kind" as outlined by the Minister when the words were first introduced. In 1890 the words "class or kind" were introduced into the Customs Tariff by the then Minister of Finance, Mr. Foster. Mr. Foster was the only Minister of Finance until 1961 who gave any interpretation of the meaning of "class or kind".

The Chairman: May I interrupt you, Mr. Hooper?

Mr. Hooper: Yes.

The Chairman: If that is the case and that nobody, since the hon. Mr. Foster did so in 1891, has attempted to define "class or kind", why are you complaining because the government at this time is not attempting to define "availability" or "public interest"?

Mr. Hooper: He did define it.

The Chairman: Was it in the statute?

Mr. Hooper: No, it was not in the statute.

The Chairman: Then why are you complaining that "availability" and "public interest" are not defined in the statute?

Mr. Hooper: When "class or kind" was introduced in the tariffs in the machinery and subsequent items it had a meaning, and Parliament knew what that meaning was.

The Chairman: What is the meaning?

Mr. Hooper: The meaning of "class or kind"?

The Chairman: Yes.

Mr. Hooper: In those days and since, they were those sizes that were actually made in Canada or the machines that were found to be "made in Canada"; they were interpreted to be the kind or the class that was made in Canada.

The Chairman: Where is that written down?

Mr. Hooper: That came through the years by the practice of the department. The interpretations were accepted and Parliament knew the practice of the department when the items were subsequently written into the tariff.

• 1735

The Chairman: Why are you objecting to a similar thing happening here with regard to the development of departmental practice on "availability" and "public interest"?

Mr. Hooper: Because today we have no idea what this word "availability" means.

The Chairman: If you had been around in 1890 would you have objected to Mr. Foster introducing the concept of "class or kind" on the same basis?

Mr. Hooper: No, because I would have thought at that time that it was easy to interpret; today I know it is not.

Mr. Richard: Mr. Chairman, I think the point that has to be made here is that it is all very fashionable to criticize "class or kind" all of a sudden and to suggest that it lends itself to legalistic definitions. Any phrase that

you find in a statute could lend itself to legalistic definitions or interpretations and I suggest that the word "availability" can lend itself to as much confusion as "class or kind". The important thing to remember is that "class or kind" is not being removed from this statute completely. It is still in dumping duty provisions until we adopt or implement the anti-dumping code. It is still in Section 6 of the Customs Tariff and it is still in 96 other items of the Customs Tariff at present. It seems to me that it is a little difficult to understand how the left hand can be saying that "class or kind" is outdated, and the right hand on the other side is maintaining 96 items with "class or kind" in it. I am not purporting to suggest, Mr. Chairman, that I have a complete definition for "class or kind". All I can say is that it has been interpreted over the years. My big reason for raising this matter is not to suggest that there should be a definition in the statute of "availability" or of "class or kind". My point is that there is no appeal from a decision as to what is available, whereas there was an appeal from the decision as to what was "class or kind" and this is the point I am raising.

The Chairman: Mr. Richard if, as Mr. Hooper has pointed out, not one out of 200,000 applications go to the Tariff Board as a practical matter, how important is that if we have the intermediate review procedure?

Mr. Richard: Mr. Chairman, I may get a little carried away by this, but I feel strongly about it. Surely a parliamentary body should be concerned with the rights of individuals and not only with the practical aspect of matters. I say this very respectfully, Mr. Chairman.

Mr. Lambert: Mr. Richard has been reading the 1961 debates on it. I suggest Mr. Chairman you read the speeches...

The Chairman: They have been reading your speeches.

Mr. Lambert: ... of some of the leaders on your government bench right now.

The Chairman: Maybe I should read your speech.

Mr. Richard: I cannot help it, I must be consistent. Surely I think there is a beneficial effect—and I say this with great respect. I have great respect for members of the Department of Industry and members of the

departments of Finance and Trade and Commerce. I know some of them who are here today and I have the greatest respect. This is not meant as any criticism of any individual or the operation of any department, but I believe that if there is the possibility of an appeal this has a salutary effect on the administration of certain items in the customs tariff and again I am not pointing a finger at anyone. I am just saying this as a statement of principle.

And surely, merely because there have been 23 appeals, it can be used to indicate also as an answer or a rebuttal to those who suggest that the class or kind has become too legalistic or has encumbered the administration of the customs tariff. But what is important is that in those cases where there has been an appeal the right of appeal has been respected and an independent and judicial determination has been made.

Mr. McKennirey: Mr. Chairman, as a matter of fact I think I can point out that one of the difficulties in the past has not been so much that one case in 200,000 goes to the Tariff Board, but that the Tariff Board finding becomes the precedent for the disposition of all future matters in respect of the same type of import.

The Chairman: First I ask the Committee whether they would like to have printed this additional submission by Mr. Hooper on the question of class or kind. Are we agreed on that?

Some hon. Members: Agreed.

The Chairman: It is not unduly lengthy and there are some very interesting points on the history of class or kind and its development over the years.

• 1740

Mr. Hooper: Mr. Chairman, especially in respect of the statements that have been made from time to time that it takes a considerable length of time to get a not made in Canada decision, it is to be borne in mind that the memorandum has been out since 1935, after tariff item 427 extract at the time came into effect, when all goods were of a class or kind made in Canada until they were ruled not made.

I might point out also Mr. Chairman, that only 6 out of the 23 decisions made by the Tariff Board allowed the appeal by the importer.

[Translation]

The Chairman: I give the floor to Mr. Latulippe, who has been very patient.

Mr. Latulippe: Mr. Chairman, I have not so many questions because during the discussion a lot of my questions were answered.

I am not aware of the present situation, but I get letters, requests, from many manufacturers of my county and of many counties in the Province of Quebec. For instance, would machinery purchased in 1967, six months or a year ago, but not yet delivered, come under this regulation? Could the regulations lowering the customs rates be applied to this machinery?

The Chairman: I think it would be easier to ask Mr. McKennirey to answer your question. Mr. Richard may add his comments, if he so wishes.

[English]

Mr. McKennirey, it seems to me that Mr. Latulippe's question which is quite in order deals more with the method of administration of the program, and perhaps it would be unfair to ask Mr. Richard to give us his expert opinion as counsel at this time.

Mr. McKennirey: As I understand the question, Mr. Chairman, it is whether or not machinery that is on order in 1967 but is yet to come into the country in 1968 could be imported under the provisions of the program, and the answer is, yes.

[Translation]

Mr. Latulippe: Is this program going to apply only to the United States or can it apply in other countries; in England, for instance?

Will the same advantages be applied or afforded whether it is goods imported from England or the United States, will they all enjoy the same advantages because many other countries are in the same position?

Could we get the list of the countries with whom we can deal and where we can benefit from the advantages?

• 1745

[English]

Dr. Annis: Yes, I could answer that and it is in the affirmative. The provisions will apply as of right to all countries with which we have Most Favoured Nation agreements, to whom we extend our Most Favoured Nation rates or more favourable rates, and that is to any country entitled to the benefits of the British Preferential tariff. So, in effect it

is all countries, all imports under the items in question.

[Translation]

Mr. Latulippe: Now this act is only applicable after January, 1968. There is nothing that can apply before that date?

[English]

Dr. Annis: Yes, sir.

[Translation]

Mr. Latulippe: With regard to machinery set up and in Canada, but the parts of which are imported from the United States, will the parts of this machinery be subject to the same conditions as machines completely built and assembled in the United States?

[English]

The Chairman: Are any of you gentlemen prepared to answer that?

Mr. McKennirey: I think, Mr. Chairman, I not too clear just what the question was. Was it with respect to replacement parts or production parts?

Mr. Latulippe: No, they buy all the pieces from the United States. They build the machine in Canada, but all the pieces come from the United States.

Dr. Annis: In that case whether they came from the United States or another country the parts, if they are classified under the items in question, would be under the program and would be entitled to the favourable treatment that is provided for there.

• 1745

Mr. McKennirey: Remission could be granted on the parts if they are not available from production in Canada.

Mr. Latulippe: Thank you.

Mr. Lambert: I have one or two brief observations. I noted that the brief suggested an appeal to the Exchequer Court, or that the Exchequer Court could be constituted an appeal court—an independent appellant tribunal on page 6—but I would like Mr. Richard to consider the limitations that are imposed on the Exchequer Court as to the exercise of discretionary judgment, and I would put it to you that the question of public interest, as envisaged within this tariff item and the terms of reference to the Machinery and Equipment Advisory Board and to the Minister in so far as remission is concerned, is one

strictly of discretionary judgment and that therefore anything that would be determined along the line of being in the public interest could not be reviewed by the Exchequer Court following its standard rules.

There is an exercise of discretion by the Board, by the Minister and provided that has been done properly there is no room for appeal.

Mr. Richard: Our proposal, Mr. Lambert, is for an appeal on the question of availability from production in Canada only.

Mr. Lambert: There I agree with you that that is a question on the basis of availability. This is much more factual than the other.

Mr. Richard: Yes.

Mr. Lambert: But we must remember that there is this dichotomy of availability and public interest with regard to the remission case.

Mr. Richard: Our position on the criteria of public interest is that in the present form, undefined as it is in the statute—I do not particularly care what an Order in Council says because it can be changed by another Order in Council and is not limiting—it should not form part of this tariff item or its proviso; that the goods should be entitled to this remission if they are not available for production in Canada, in the same way as under the present statute goods are entitled to a lower rate of duty if they are of a class or kind not made in Canada without any judgment as to whether it is in the public interest to grant such lower rate of duty. Merely by resorting to a different method, that of remission, the effect, I suggest, to the importer is the very same; he is paying less money or he is paying less duty.

Mr. Lambert: Do you consider the proposed machinery advisory board to be in the nature of an administrative or regulatory board in its proposed operations?

Mr. Richard: I consider it to be merely a ministerial advisory board.

Mr. Lambert: I was wondering whether your opinion would be much the same as mine, that in practice it will be a regulatory and administrative board and therefore beyond the powers of section 15 of the Department of Industry Act. I am not going to ask you for an opinion, Mr. Richard, but I would like you to consider that at some time.

Mr. Richard: You have raised a very interesting point, Mr. Lambert. I have not considered section 15 of the Department of Industry Act in the light you have suggested.

Mr. Lambert: Well, that is the parent of the machinery advisory board.

Mr. Richard: Yes.

• 1750

Mr. Lambert: This is the power and also the terms of reference to the Cabinet as set down. It might be interesting to consider that.

Mr. Richard: Thank you, Mr. Lambert.

The Chairman: If Mr. Lambert has completed his questions...

Mr. Lambert: Yes, thank you.

The Chairman: ...I wonder if the Committee would just permit me to add one or two questions of my own before we adjourn.

First, I would like to draw to the attention of the Committee that I have a detailed answer from Mr. Porter of the Department of Trade and Commerce to my inquiry as to exports of machinery by a number of countries in addition to Canada, and the principal markets for this machinery. Pursuant to our policy, we will have this printed as we have done for other answers provided to members' questions.

Also, I do not know if it has been noted in the record but we have had an official quorum since just shortly after our meeting began.

First of all, Mr. Richard, whether or not what was done by Canada in the GATT negotiations was an undertaking or an intention, I would like to ask you what there is in the extract from GATT that you published which makes it necessary for Canada to make an immediate change in its domestic law. It would seem to me that extract you have provided us refers to action in the future after a consultation with trading partners who complain that the incidence of duty does not meet the 9 per cent test.

Mr. Richard: As we have stated in our brief, on a matter of this importance, involving goods of a value, for duty purposes at least, of over \$700 million—as Dr. Annis has said, a matter which has been laid before Parliament rather than dealt with by an Order in Council—in other words, a very important piece of legislation—we felt that

this Committee and Parliament would want to approve a piece of legislation which would not require revisions in the near future, which would not invite revisions in the near future, and was not passed with the expectation that there would be a need to have consultations at the level of GATT in order to ensure that Canada meets the obligation which it has agreed and undertaken to meet.

Our position is to give effect, to implement now what we understand to be the undertaking given by Canada to its trading partners.

The Chairman: Therefore you are not really disagreeing with me when I say that the wording of the GATT clause does not, in its terms, impose on Canada the obligation to make any immediate change in its domestic law with respect to writing into that law the 9 per cent test.

Mr. Richard: In my view, a fair reading of the text contemplates that this will be done.

The Chairman: Well, it says:

Provided, further, that it is the intention of the Government of Canada that the average incidence of the duties...shall not exceed 9 per cent ad valorem...

Mr. Richard: Yes.

The Chairman: The only remedial or operative portion is in the additional clause which says:

Provided, further, that the Government of Canada shall consult, on request, in respect of the average incidence of duties under Item 42700-1 in any calendar year with any contracting party having a substantial trade interest in that item, and, if it is established in the course of such consultations that such average incidence has exceeded 9 per cent ad valorem in any calendar year, the Government of Canada shall take immediate and effective remedial measures.

In other words, the scheme that seems to be contemplated here is that the contracting parties watch what Canada does, if they feel that Canada is not meeting the 9 per cent test they call for consultations, and if in the course of these consultations the contentions of the supposedly aggrieved trading partner are established, then and only then does the Government of Canada have an obligation to take immediate and effective remedial measures.

Mr. Richard: We are suggesting that the Government of Canada should take effective measures now...

The Chairman: Before any complaint.

Mr. Richard: ...before any complaint and not invite the relieving provisions that are inserted for the relief of our trading partners.

• 1755

I may point out too that in our view the importer has a major interest in this item. As presently constituted this item does not assure the importers that the effective incidence shall not exceed 9 per cent ad valorem or that 40 per cent in value of all importations under this item shall be free of duty from MFN countries, especially when the criteria of public interest is added because, as I have said, even though he may otherwise be entitled to remission because the goods are not available in Canada, by a decision that it is not in the public interest he will be deprived of that remission.

The Chairman: Are you contending that the shift in the nature of imports of machinery will move almost immediately by a degree of 25 per cent?

Mr. Richard: I have no personal knowledge of that. I am concerned with the implementation, and implementation only, of what Canada has undertaken at GATT.

The Chairman: Of course, unless this happens, unless there is a shift of some 25 per cent in the nature of our imports, there is no problem for anyone as to the 9 per cent test not being met if we can accept Mr. McKennirey's and Dr. Annis's analysis.

Mr. Lambert: I beg your pardon, Mr. Chairman. Surely to goodness there is a danger, as pointed out by Mr. Richard.

The Chairman: I do not disagree with it.

Mr. Lambert: But in so far as the 9 per cent is concerned, suppose that there is an excess of 9 per cent and representations are made by trading partner countries and that Canada must take remedial action which is imposed on it according to the GATT clause. I would like to know, and I think you would like to know too, how is this to be done? Is this to be done by legislative action—legislative action is the only one that will affect the tariff level—or is there power to act administratively by way of Order in Council? And unless there is power to act by Order in Council in a statute, that power does not exist. You cannot pass an Order in Council just out of thin air...

The Chairman: Well, that is quite right.

Mr. Lambert: ... although some people try it sometimes. I think that is what Mr. Richard is getting at. I am just wondering, and perhaps Dr. Annis can explain, where the government is authorized to take such remedial action unless it has reserved unto itself the idea that if it must take remedial action it will do so legislatively. With that I have no complaint because then it is coming to the right source. But if it is going to do so administratively, where is the power?

Dr. Annis: I am competent, I think, only to deal with the technical aspects of this. In that regard I think there are two or three comments that I can make. I will reserve the direct answer to your question to the last.

First, as to whether or not what has been proposed in terms of legislation satisfies the commitment to our trading partners as undertaken at Geneva, I am satisfied as a technician that it does so. I might also add, although in a way perhaps this is going beyond what is proper, in the discussions which we had with our trading partners, and in particular with the delegation of the United States and their legal adviser, they were satisfied with this formulation. In fact, the formulation was negotiated and discussed with them in great detail and they assisted in the drafting of the formulation. This is the first point that I would like to make.

It seems to me that in terms of implementing an international commitment, the implementation and the method that is proposed is adequate if it satisfies the other parties to the negotiation.

Mr. Lambert: You did not bind them to that?

Dr. Annis: They accepted the words that are there and I would not attempt to go back to that. They accepted the commitments that are set out in two documents, one is Schedule V to the list of tariff commitments that were made in the Kennedy Round tariff agreements and the other document is the notice to the contracting parties of the agreement between Canada and the United States with respect to the re-negotiation of the commitment under article XXVIII, to which I have referred previously and I will not repeat it.

• 1800

The Chairman: Did these trading partners sign a document containing the wording which we find in Appendix A?

Dr. Annis: Yes, sir.

The Chairman: They did?

Dr. Annis: The representative of the United States did so; the commitment was to them.

The Chairman: The commitment was to the United States?

Dr. Annis: The commitment that was being re-negotiated, yes.

The Chairman: I see; and this includes both of these clauses beginning with the word "provided"?

Dr. Annis: Yes.

Then the second point really comes to implementation, in case the circumstances at some future time should require action to be taken by Canada. If provision were now to be made in the statute for action to be taken in that event, I believe it would be necessary to specify in detail what the action would be. I am correct in this, am I not?

The point that I would like to make here is that the detail of the corrective action, the remedial action, to use the term that is used here, has not been specified and this was deliberate. It would be open to the Canadian government to choose one of several alternatives that might be open. One alternative might be to come to Parliament for a change in the basic 15 per cent rate. You said there was no alternative, no statutory authority.

• 1810

Mr. Lambert: I have not been able to discover it, but you may be able to tell me.

Dr. Annis: I direct your attention to an authority which exists and with which I know you will be familiar when it is recalled to your memory, and which you might or might not agree would be competent. It is Section 10 of the Customs Tariff, which provides authority under which the Governor in Council may reduce or remove duties where necessary to implement a trade agreement with other countries. There would be at least the possibility of action there. It might be that it would be wise to seek a legal opinion before using that.

Mr. Lambert: Yes. I would have thought that perhaps there would have been a proviso put in this particular tariff item, or in the proposals that are before us, with particular reference to this commitment, that the Governor in Council, in the event remedial action must be taken under a certain clause of the

GATT agreement, would be authorized to take such necessary steps. This is a blanket authorization which we know we are giving Cabinet. I have been citing or illustrating one possible way of doing it. It may be that people who are more versed in administrative matters could shoot that full of holes but this is what I think might be explored.

Dr. Annis: Yes.

Mr. Lambert: So it is explicit to answer the point that I think is being made with some justification by Mr. Richard.

Dr. Annis: On that point, as a technician, I would agree that what you have suggested would have been a possible way of doing it. I would add that this new provision would be something that is pretty close to the present Section 10.

Mr. Lambert: Yes, but I suggest to you, Dr. Annis, that those people who have to consider these proposals under the Kennedy Round would have the whole picture before them. The consideration of the proposals that are before us do not bring into relief this section of the GATT agreement to which Mr. Richard has referred. This will escape a lot of people's notice. It is only the experts who know this, and I would have thought that it might have been a very fine place to "flag" this potential.

Dr. Annis: Possibly so, but I might go on to mention a third possibility. Perhaps there are others, but I will stop after mentioning this one. If it were necessary to take remedial measures, the result could be accomplished if action were taken of a sort which would result in a higher proportion than previously of the imports being admitted duty free and subject to remission, and a lower proportion subject to the 15 per cent rate which in general will apply to goods not available in Canada. I have mentioned three possibilities. The point I would make is that in terms of the commitment that was made the government is not obligated in advance to adopt any one of those three possibilities, and it might be that even other possibilities could be considered. I mention three which spring rather readily to mind as being the obvious possible avenues of remedial action in the event—and I think I should keep stressing that I would regard it as a most unlikely event—that the necessity to do so should ever arise. The expectation is that this contingency will not arise.

• 1815

The Chairman: Gentlemen, I think we have had most interesting discussion on some very stimulating concepts with respect to this machinery program, especially in so far as they have been linked with our undertakings under the GATT.

As we mentioned before, Mr. Hooper also prepared a brief memorandum setting forth his views on the anti-dumping code, which will be reflected in legislation presently being prepared. We are not in a position to officially agree that it be printed, but perhaps we could refer this to our meeting tomorrow morning.

I would like to thank our witnesses for coming here to express their views, and we

will now adjourn until 11 o'clock tomorrow morning.

Mr. Hooper: Mr. Chairman, may I say one word about the machinery accessories that come under 42700-1. They also come under two or three items in the tariff that still retain "class or kind" provisions, so that in effect customs will be required to keep up the "class or kind" classification of all these machines to determine whether or not they are entitled to entry under tariff item 696 or 40g. There may be one or two more.

The Chairman: If that is the case we will have a continuing contest to see which is better, "availability" "and" public interest" or "class or kind".

I declare the meeting adjourned.

APPENDIX "O"

BRIEF

Submitted by Gordon Hooper and John Richard to the Committee on Finance, Trade and Economic Affairs, regarding proposed customs Tariff Resolution and, in particular, proposed Tariff Item 42700-1.

This brief is submitted on behalf of import-

ers of machines which will be classifiable under proposed Tariff Item 42700-1. The proposed Tariff Item 42700-1 is set out in the Ways and Means Resolutions on the Customs Tariff tabled by the Minister of Finance on November 6, 1967 and reads as follows:

Tariff Item	B. P.	M.F.N.	General	Present Rates		
				B. P.	M.F.N.	General
42700-1—Machines, n.o.p., and accessories, attachments, control equipment and tools for use therewith; parts of the foregoing.....	2½ p.c.	15 p.c.	35 p.c.	10 p.c. Free Various	22½ p.c. 7½ p.c. Various	35 p.c. 35 p.c. Various

Except that in the case of the importation into Canada of any goods enumerated in this item, the Governor in Council on the recommendation of the Minister of Industry may, whenever he considers that it is in the public interest and that the goods are not available from production in Canada, remit the duty specified in this item applicable to the goods, and subsections (2), (3), (4), (5) and (8) of section 22 of the Financial Administration Act apply in the case of a remission granted under this provision.

In his address to the House of Commons on December 12, 1967, the Minister of Industry in speaking of proposed Tariff Item 42700-1 made the following statement: "This program is of major significance as a means for encouraging the development of efficient Canadian industry." (Hansard, December 12, 1967, page 5329). We submit that this program should encourage the development not only of an efficient machinery industry in Canada but also encourage the development of other sectors of Canadian industry such as those sectors that require machines and accessories classifiable under proposed Tariff Item 42700-1 for the efficiency and expansion of their industry. In other words, the objective should be applied not only to the producers of machinery but also to the users of machinery and proposed Tariff Item 42700-1 should not be enacted or interpreted in such a manner as to favour one sector of the Canadian industry over another sector of the Canadian industry.

It is, therefore, our submission that due weight should be given to the interests of the users of machinery as well as to the interests of the producers of machinery in Canada.

The Minister of Industry has recognized this himself when he made the following statement to the House of Commons on December 12, 1967: "The primary objective of providing for remission of duty in this way is to encourage the development of efficient industry by allowing users of machinery to acquire capital equipment at the lowest possible cost and at the same time enable machinery producers to derive maximum incentive and encouragement from the tariff which will now apply, with a greater measure of certainty, to the products they manufacture. If Canadian manufacturers are to increase productivity and be competitive in international markets, it is of vital importance that they acquire the most modern and efficient machinery." (Hansard, December 12, 1967, page 5239).

Proposed Tariff Item 42700-1 and its proviso purport to give effect to the undertaking given by Canada and appearing in GATT, Article XXVIII (see Appendix "A"). The Minister of Industry admitted and recognized that this undertaking was given to enable Canada to pay for tariff concessions offered by Canada's major trading partners in the Kennedy round. Therefore, this undertaking and this proposed machinery tariff are concessions for the benefit of countries exporting machinery classifiable under this proposed tariff item. In fact, Canada has made an international undertaking that the average incidence of the duties of all imports under proposed Tariff Item 42700-1 from countries entitled to the Most-Favoured-Nation tariff shall not exceed 9 per cent ad valorem in any calendar year. The Minister of Industry acknowledged the existence of this agreement and of this undertaking in the House of Commons on December 12, 1967 and also outlined the effective results of these concessions. This is what the Minister of Industry said on this matter:

"Negotiation of the machinery proposal was difficult and protracted since removing the formal class or kind distinction required that goods under tariff items being replaced which were classified as not made would carry higher statutory rates. In practice the effective rates would be reduced by virtue of the operations of the new remission system.

Trading partners agreed to our proposal in the end on the understanding that an over all reduction of duty would result because remission would be granted on imports of machinery not available from production in Canada. However, they insisted that in order to treat the machinery proposal as a tariff concession by Canada there be some guarantee that it would, in fact, lead to a reduction in total duties collected on the machinery involved. As a consequence, Canada gave an undertaking that the average annual incidence of m.f.n. duty under 42700-1 would not exceed 9 per cent. This undertaking is tantamount to saying that at least 40 per cent, by value, of future m.f.n. imports under 42700-1 will consist of machinery not available from production in Canada and consequently duty will not be collected on them."

(Hansard, December 12, 1967, page 5330).

There is nothing in the proviso to proposed Tariff Item 42700-1 which refers to this

undertaking or gives effect to this undertaking. As presently worded, the proviso gives no guarantee that proposed Tariff Item 42700-1 will in fact lead to a reduction in total duties collected on the machinery involved to a level of at least 9 per cent. The Minister of Industry has sought to allay the legitimate concern of exporters and users of machinery by referring to the percentage of machinery imports during recent years, (*Hansard*, December 12, 1967, page 5330). In our submission, the Minister and the Department of Industry have no reasonable grounds to form an opinion as to the percentage of imports of machinery which will in fact be held to be free of duty. The figures and percentages which the Minister is relying on are based on a test of made or not made in Canada, which test is not carried forward in the new proposed tariff item and, therefore, these figures are of little usefulness or validity. Also, since the machinery program was introduced only on January 1, 1968, the Minister at the time he made his statement on December 12, 1967 did not have the benefit of reports being supplied from Canadian industry and the submissions of Canadian importers. Furthermore, this international undertaking which has been given by Canada and the guarantee insisted upon by its trading partners does not form part of the domestic law of Canada since no reference to it is made in the proposed tariff item or its proviso.

We would ask the members of the Committee to note that the proviso to proposed Tariff Item 42700-1 provides for two basic tests when consideration is being given to applications for remission. The first test is whether the goods are available from production in Canada and the second test is that of public interest. The Minister of Industry in his statement to the House of Commons described what he understood to be the criterion of public interest (*Hansard*, December 12, 1967, page 5331). Nowhere in the undertaking given by Canada at GATT (see Appendix "A") is any reference made to the criterion of public interest. Therefore, in our submission the proviso to proposed Tariff Item 42700-1 contains a test or criterion which was not agreed upon during the GATT negotiations and which was not contained in the undertaking given by Canada. This test of public interest, if applied as suggested by the Minister of Industry, could mean that an importer or user of machinery who would be otherwise

entitled to free entry of the machinery on the basis that it was not available from production in Canada would be disentitled to such free entry by reason of a decision of the Advisory Board, the Review Board or the Minister that entry free of duty is not in the "public interest". This is a broad, arbitrary and discriminatory provision which was not intended in the original undertaking given by Canada to its trading partners.

Our final submission relates to the procedures for remission of duty under the proposed tariff item and, in particular, the provision for a right of appeal from the finding as to availability of the goods from production in Canada. It will be noted that the decision to remit duty is to be made by the Governor in Council on the recommendation of the Minister of Industry. In order to assist him in making a recommendation, the Minister of Industry has stated he will constitute an Advisory Board and a Review Board. The Advisory Board and the Review Board will be established by the Governor in Council pursuant to the Department of Industry Act. It is clear that both the Advisory Board and the Review Board are merely advisory boards and that the Minister of Industry is not bound by their findings or recommendations (Hansard, December 12, 1967, page 5332). It also appears that the Advisory Board will be comprised of a Chairman, the Deputy Ministers of Industry, Finance, Trade and Commerce, and National Revenue, and will be assisted by branches of the Department of Industry which are concerned with individual industries, including machinery manufacturing (Department of Industry Information Bulletin, December 14, 1967). At present, there appears to be no provision to give interested parties notice of any hearing and the opportunity to be heard. There is no provision for a public hearing or the opportunity to present evidence or to test any information upon which the Board may decide to rely, nor is there any provision for the publication of the findings and recommendations of either Board or of the Minister. It would further appear that all the Advisory Board or the Review Board will have before it on which to make a finding and a recommendation will be the information and reports prepared for the Board by specialized branches of the Department of Industry (Hansard, December 12, 1967, page 5331). A program of such major significance and involving goods amounting to approximately \$700 million in import value

should be administered in an open manner and give the opportunity to interested parties to appear and be heard. It should also provide for an effective right of appeal on both fact and law to an independent tribunal. The Minister should then be bound by the findings of the Advisory Board, the Review Board and the independent appellate tribunal. The Exchequer Court of Canada could be constituted as the independent appellate tribunal as it is presently constituted for appeals under the Customs Act from the Tariff Board. Our proposals regarding the publication of decisions and the right to appeal to an independent tribunal are supported by Article X of GATT, 1947, subscribed to by Canada (see Appendix "B"). For the convenience of the members of the Committee, we have also appended as Appendix "C" the legislative history of appeal procedures from the decisions of the Deputy Minister of National Revenue, Customs and Excise, under the Customs Act, since 1927 to the present date.

Respectfully submitted,

Gordon Hooper,
Customs Consultant, and
John D. Richard,
Barrister & Solicitor.

APPENDIX "A" TO

RICHARD-HOOPER BRIEF

"Machines, n.o.p., and accessories, attachments, control equipment and tools for use therewith, part of the foregoing . . . 15 P.C. Provided, that the Government of Canada shall establish procedures under which importers of goods subject to duty under Item 42700-1 may apply for remission of duties paid or payable when such goods are not available from Canadian production. Provided, further, that it is the intention of the Government of Canada that the average incidence of the duties (after taking into account remissions of duties) on all imports under Item 42700-1 from countries entitled to the most-favoured-nation tariff shall not exceed 9 per cent ad valorem in any calendar year.

Provided, further, that the Government of Canada shall consult, on request, in respect of

the average incidence of duties under Item 42700-1 in any calendar year with any contracting party having a substantial trade interest in that item, and, if it is established in the course of such consultations that such average incidence has exceeded 9 per cent ad valorem in any calendar year, the Government of Canada shall take immediate and effective remedial measures."

APPENDIX "B" TO

RICHARD-HOOPER BRIEF

ARTICLE X

Publication and Administration of Trade Regulations

1. Laws, regulations, judicial decisions and administrative rulings of general application made effective by any contracting party, pertaining to the classification or the valuation of products for customs purposes, or to rates of duty, taxes or other charges, or to requirements, restrictions or prohibitions on imports or exports or on the transfer of payments therefor, or affecting their sale, distribution, transportation, insurance, warehousing, inspection, exhibition, processing, mixing or other use, shall be published promptly in such a manner as to enable governments and traders to become acquainted with them. Agreements affecting international trade policy which are in force between the government or a governmental agency of any contracting party and the government or governmental agency of any other contracting party shall also be published. The provisions of this paragraph shall not require any contracting party to disclose confidential information which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises, public or private.

2. No measure of general application taken by any contracting party effecting an advance in a rate of duty or other charge on imports under an established and uniform practice, or imposing a new or more burdensome requirement, restriction or prohibition on imports, or on the transfer of payments therefor, shall be enforced before such measure has been officially published.

3. (a) Each contracting party shall administer in a uniform, impartial and reasonable manner all its laws, regulations, decisions and rulings of the kind described in paragraph 1 of this Article.

(b) Each contracting party shall maintain, or institute as soon as practicable, judicial, arbitral or administrative tribunals or procedures for the purpose, inter alia, of the prompt review and correction of administrative action relating to customs matters. Such tribunals or procedures shall be independent of the agencies entrusted with administrative enforcement and their decisions shall be implemented by, and shall govern the practice of, such agencies unless an appeal is lodged with a court or tribunal of superior jurisdiction within the time prescribed for appeals to be lodged by importers; Provided that the central administration of such agency may take steps to obtain a review of the matter in another proceeding if there is good cause to believe that the decision is inconsistent with established principles of law or the actual facts.

(c) The provisions of sub-paragraph (b) of this paragraph shall not require the elimination or substitution of procedures in force in the territory of a contracting party on the date of this Agreement which in fact provide for an objective and impartial review of administrative action even though such procedures are not fully or formally independent of the agencies entrusted with administrative enforcement. Any contracting party employing such procedures shall, upon request, furnish the CONTRACTING PARTIES with full information thereon in order that they may determine whether such procedures conform to the requirements of this sub-paragraph.

APPENDIX "C"

TO RICHARD-HOOPER BRIEF

Re: History of Appeal Procedures Under the Customs Act

The Revised Statutes of Canada, 1927, c. 42, s. 54, provided as follows:

"54. Whenever any difference arises or whenever any doubt exists as to whether any or what rate of duty is payable on any class of goods, and there is no previous decision upon the question by any competent tribunal,

binding through Canada, the Board of Customs may declare the rate of duty payable on the class of goods in question, or that such goods are exempt from duty, subject in each case to an appeal within sixty days from date of such declaration, by any person interested, to the Governor in Council; and any such declaration of the Board of Customs when approved by the Minister after the expiration of sixty days from the date thereof, or any such declaration when made by any order in council upon appeal, shall have force and effect as if the same had been sanctioned by statute."

It will be noted that:

- (1) The final appellate tribunal was not the Board of Customs but rather the Governor in Council; and
- (2) the declaration of the Board of Customs was subject to approval by the Minister.

Chapter 55 21-22 George V assented to August 3, 1931, was an Act to provide for the appointment of the Tariff Board.

Part II of that Act reads, in part, as follows:
"TARIFF BOARD SUBSTITUTED FOR BOARD OF CUSTOMS"

11. (1) From and after a date to be fixed by the Governor in Council, all the powers, functions and duties of the Board of Customs shall be assigned to and be transacted by the Tariff Board constituted by this Act.

(2) Wherever in any Act of the Parliament of Canada, or in any regulations or orders made thereunder, the Board of Customs is mentioned or referred to, the Tariff Board shall in each and every such case be substituted therefor; any right of appeal from decisions of the Board of Customs shall continue as provided by the Customs Act".

In the matter of a Reference to the Supreme Court of Canada concerning the jurisdiction of the Tariff Board of Canada, the decision is reported (1934) S.C.R. p. 538.

At page 545 Mr. Justice Rinfret said:

"The power of review was formally vested in the Board of Customs, and is now vested in the Tariff Board. It is limited to the two particular purposes just stated. The decision of the Board in the exercise of this power is expressly made final and conclusive only "when approved by the Minister" (except as otherwise provided by the Act).

"The Board of Customs, therefore, as it formerly existed (now the Tariff Board under part II of the Tariff Board Act), and subject to what may be said later with regard to ss.

48 and 54 of the Customs Act, simply enters into the scheme devised by Parliament for the control and management of the collection of the duties of customs and of matters incidental thereto, primarily put by the Act respecting the Department of National Revenue under the direction, the regulation and the supervision of the Minister who presides over that Department.

"The Board of Customs was, and the Tariff Board is, in no sense, a court. By force of the provisions of the Customs Act, it is not a judicial body but an administrative body. Its functions were and are purely departmental. Its duties as set forth in the Act are all in respect to questions of fact; and there is nothing in the Customs Act which purports to exclude from the jurisdiction of the ordinary courts any question of law, either with regard to the validity of the Minister's acts or otherwise, nor is any such jurisdiction conferred on the Board of Customs (now the Tariff Board, part II). It follows that in the performance of its duties under part II the Board must give effect to the orders of the Minister of National Revenue; and moreover that its decisions are subject to the approval of the Minister, by whose orders the Board is bound as the responsible Head of the Department."

At page 547 Rinfret J. said:

"It need only be noted that s. 54 calls for a declaration with regard to rate in specially defined cases, that it is subject to appeal to the Governor General in Council; and that it requires either the approval of the Minister or the approval by Order in Council (in case where there was an appeal) in order to have force and effect."

The Tariff Board Act was amended by chapter 70 11-12 George VI 1948. Sections 11 to 14 inclusive were repealed. Concurrently, the Customs Act was amended by chapter 41 11-12 George VI 1948. Sections 46 to 54 were repealed. The new section 49 provided for appeal as of right from the decision of the Deputy Minister to the Tariff Board and, on a point of law, from the Tariff Board to the courts. At the time he introduced the amendment (Bill 229) in 1948 to give effect to undertakings in GATT the Minister of National Revenue stated that the Bill revises or deletes such sections of the existing law as are repugnant to GATT and also removes certain sections which, by reason of changes in conditions, have become obsolete. Subsequent amendments to the Customs Act preserved this right of appeal.

APPENDIX "P"

REGARDING THE MEANING AND
APPLICATION OF THE PHRASE
CLASS OR KIND MADE
(NOT MADE) IN CANADA

Was the term "class or kind" interpreted by the Tariff Board and administered by Customs since 1950 at variance with what was the well-known established import of those words prior to that date?

We point out to the Committee that not one customs entry out of every two hundred thousand entries goes to the Tariff Board on appeal from the Port Appraiser's, Dominion Customs Appraiser's and the Deputy Minister's decision.

One way to determine if the "class or kind" tariff items were always interpreted is to refer to the evidence given by a former Commissioner of Customs and two spokesmen for the Department of National Revenue, Customs and Excise, in Tariff Board Appeal No. 272 (Power Cranes and Shovels of $\frac{1}{2}$ cubic yard to 2 cubic yard capacity) on February 16 and 18, 1953.

Tariff Board Appeal No. 272 permitted the hearing of an appeal by Dominion Hoist and Shovel Company Limited, Montreal, Quebec, a wholly owned subsidiary company of Dominion Engineering Company Limited, against a decision made prior to 1950 by the Deputy Minister of National Revenue, Customs and Excise, which held only those size of power cranes and shovels that were in fact made in Canada, to be of a class or kind made or produced in Canada.

The Tariff Board's declaration of March 18, 1953, upheld the Deputy Minister's decision.

Mr. A. R. Hind, Assistant Chief Dominion Customs Appraiser, now Assistant Deputy Minister, under oath, said:

"We have to do a reasonably good job and in our effort to do this we are endeavouring to give Canadian manufacturers the protection to which they are entitled on the articles they manufacture, and conversely, we are endeavouring not to give them protection on something they do not manufacture which would thereby have the effect of increasing

unnecessarily, I feel, the cost to the end-user of something which is not procurable in Canada". Proceedings, Official Report, Appeal No. 272, February 16 and 18, 1953, at page 379, line 2.

Mr. H. D. Scully was Commissioner of Customs from 1933 to 1943. His statements are recorded from pages 367 to 371, inclusive, in the Report referred to above. At page 368, line 19:

"An appraiser visited Montreal, probably other officials did, and it was discovered that the company had not yet proceeded far enough in its liaison with the American principal to have serious Canadian consequences. Subsequently it was remedied as they progressed and I think in my time the recommendation of the appraiser—and confirmed by the Minister—was that we went from $\frac{3}{4}$ to $1\frac{1}{4}$, I think, as sizes which were made in Canada. That is subsequently. My successor apparently increased that scale."

The following statement by Mr. Andre Forget, counsel for Dominion Hoist and Shovel Company Limited sheds light on Customs interpretation, prior to 1950. Quoting from page 12, line 2:

"Mr. Forget: No. The ruling of the Department—at least decisions of the Department applied to customs entries are to the effect that power cranes and shovels of a certain nominal dipper capacity are of a class or kind made in Canada, and the power cranes and shovels of a different nominal dipper capacity are of a class or kind not made in Canada; and that is the attitude of the Department which we are before this Board to challenge".

The Tariff Board's declaration in Appeal No. 272 upheld Customs' decision that only those sizes of Power Shovels that were in fact made in Canada were of a "class or kind made or produced in Canada". The Tariff Board's declaration was not appealed to the Exchequer Court of Canada.

After the period for appeal of the Tariff Board's declaration in Appeal No. 272, the Deputy Minister of National Revenue, Customs and Excise, issued Memorandum D 51

MCR 152 dated June 3, 1953, declaring $\frac{3}{4}$ cubic yard and $2\frac{1}{2}$ cubic yard Power Shovels were of a class or kind made in Canada notwithstanding the fact that they were not in fact made in Canada.

That decision meant that the Deputy Minister was holding the size smaller than the smallest made in Canada and the size larger than the largest size made in Canada, to be made or produced in Canada.

The Deputy Minister's decision that $2\frac{1}{2}$ cu. yd. Power Shovels were of a class or kind made in Canada was appealed against in Tariff Board Appeal No. 306.

The decisions of the Tariff Board, the Exchequer Court of Canada and the Supreme Court of Canada were that the $2\frac{1}{2}$ cu. yd. Power Shovel was of a class or kind not made in Canada.

Every appeal after Appeal No. 306, to 1960, that I know of, was an appeal to re-establish the guide lines that were used by Customs prior to 1950.

Not counting the Tariff Board's declarations in connection with the appeals on Power Cranes and Shovels, after March 19, 1953 to December 4, 1962, the Board made twenty-three (23) declarations in connection with class or kind; in seventeen (17) the appeal was dismissed; in six (6) the appeal was allowed.

That is a good record for Customs by almost any reasonable test. Especially, when it is taken into consideration that there are at the present time ninety-six (96) or more tariff items containing the phrase "class or kind".

It is our opinion that the Tariff Board's declarations in Appeals Nos. 272, 306 and others, confirmed Customs' interpretation and practice prior to 1950 and the statements of the witnesses as stated above in connection with "class or kind" and found illegal Customs' newly attempted principle of classifying "the size smaller than the smallest size made in Canada and the size larger than the largest size made in Canada, as made in Canada".

Tariff Board Appeal No. 445 was on a 2,500 foot per minute capacity newsprint machine. The appeal was dismissed. The imported machine was the "best and most improved" newsprint machine in existence when it was ordered and imported. The newsprint machine made in Canada did and has not equalled the performance of the imported machine. We think that the appeal should

have been allowed having regard to Customs interpretation and practice prior to 1950 and the Honourable George E. Foster's Budget Speech in the House of Commons in 1890 in connection with tariff items 291 and 327 that contained the phrase "class or kind not manufactured in Canada".

It would appear that the government was agreed with those who felt there should be free access to "the best and most improved machinery".

As far as we can determine the Honourable George E. Foster was the only Minister of Finance until 1961, who gave Parliament a definition or a meaning of the term "class or kind". In the years between the years 1890 and 1961, when asked for the meaning of the term, the Ministers replied to the effect that the words have been in the Customs Tariff for years.

The basket tariff item for machinery, n.o.p., of a class or kind not made in Canada, was in the Customs Tariff from May 2, 1930 to September 17, 1930 and on and after January 1, 1936.

Memorandum Series D No. 17 Supplement No. 2, dated December 23, 1935, provided "Unless the imported machinery has been ruled by the Department as being of a class or kind not made in Canada, entries thereof are not to be accepted under the above quoted extract tariff item but the machinery is to be rated under tariff item 427, Schedule I of the said Trade Agreement, at 25% ad valorem."

Further, "In cases where the importer contests such tariff classification, descriptive illustrations and full particulars, including specifications where necessary, and also the importer's evidence, if any, of efforts made to obtain machinery of Canadian manufacture of the same class, are to be forwarded to the Department for investigation and ruling".

Similar decisions, since December 23, 1935 have been in Customs Memoranda Series D 49. The current memorandum is D 49-18 of January 15, 1958. All importations of machinery, n.o.p., have been classifiable under the higher rate of customs duty and not under the lower rate until they have been ruled not made or produced in Canada.

It is our opinion that we should draw to the Committee's attention the undertakings given in 1935 by the government of Canada to the

United States government in connection with "class or kind":

1. Adequate notice of transfer from class or kind not made in Canada to class or kind made in Canada. Hence, publications in Canada Gazette and Customs Memoranda in Series D. 51.

2. That at least 10 per cent of normal consumption in Canada was made in Canada. Hence, Order in Council P.C. 1618 of July 2, 1936.

The reasons for requesting those changes in Customs Administration were to protect against increases in customs duties and the application of dumping duties without notice

of change in the made-in-Canada status of the goods. Customs practice in the years 1932-1935 was to rule made in Canada those goods the manufacturer in Canada said were of a class or kind made in Canada. Very seldom, if ever, did an association say that the goods were of a class or kind not made in Canada. And, the question answered involved a question of fact and an interpretation of the term "class or kind".

The announced machinery program of the Department of Industry does not include those two desirable features.

GORDON E. HOOPER

APPENDIX "Q"

DEPARTMENT OF TRADE AND
COMMERCE

OTTAWA 4, Ontario.

January 31, 1968

Mr. H. Gray, M.P.,
Chairman,
Standing Committee on Finance,
Trade and Economic Affairs,

Room 331,
West Block,
Ottawa, Ontario.

Dear Mr. Gray:

As you requested yesterday, attached is a
table showing exports of machinery by a

number of countries, including Canada and
Switzerland.

In the interests of comparability, these
figures are drawn from OECD statistics and
cover machinery of all classes, except for
road motor vehicles, engines, and parts. Be-
cause of their importance in the Canadian
export pattern, subsidiary tables showing
exports of agricultural machinery, and other
transportation equipment are also attached.

Yours faithfully,

A. R. Porter,
Assistant Chief,
General Relations Division,
Office of Trade Relations.

MACHINERY EXPORTS BY SELECTED COUNTRIES
(Except Road Motor Vehicles, Engines, and Parts)

Country	Machinery Exports \$000 U.S.	GNP \$ Billions U.S.	Machinery Exports as % of GNP	Exports to Main Markets \$000 U.S.				
				U.S.	U.K.	Germany	Australia	
Canada.....	965,540	53.5	1.8	716,834	36,770	15,869	16,133	
Switzerland.....	953,381	14.8	6.4	86,823	U.K.	Germany	France	
Sweden.....	1,188,063	21.4	5.5	U.S.	Denmark	Norway	Finland	
Denmark.....	475,058	11.1	4.3	71,995	76,552	207,101	78,055	
France.....	2,053,013	98.9	2.1	Norway	Germany	Sweden	U.K.	
Germany.....	6,365,993	120.2	5.3	42,208	51,476	63,174	29,139	
Italy.....	1,882,043	61.5	3.1	U.S.	Belgium	Germany	Italy	
Japan.....	2,724,646	96.3	2.8	109,056	133,470	289,594	137,473	
				U.S.	Belgium	France	Netherlands	
				371,089	390,113	702,517	545,812	
				U.S.	France	Germany	U.K.	
				126,029	218,101	249,016	93,099	
				U.S.	Liberia	S. Korea	Norway	Philippines
				630,323	314,526	126,179	97,980	80,224

SOURCES: OECD Commodity Trade: Exports: 1966 (Jan.-Dec.)
IMF: International Financial Statistics: Nov. 1967 (G.N.P. converted to U.S. dollars @ IMF December 1966 exchange rates)

EXPORTS OF AGRICULTURAL MACHINERY AND IMPLEMENTS

COUNTRY	TOTAL EXPORTS	Exports to Main Markets (000 U.S. dollars)			
		U.S.	Europe	Australia-N.Z.	
Canada	160,835	151,005	3,634	2,396	
			France 1,602		
			U.K. 1,415		
Switzerland	4,571	Austria 1,112	France 671	Norway 693	
Sweden	48,963	Denmark 6,965	France 6,167	Norway 6,127	Finland 6,481
Denmark	29,255	Germany 5,576	Sweden 4,087	U.K. 2,176	Finland 1,506
France	93,228	Germany 24,623	Italy 12,710	Austria 9,943	Algeria 7,894
Germany	224,493	France 65,380	Netherlands 19,712	Austria 17,316	Belg-Lux 16,475
Italy	81,430	France 19,766	Austria 7,135	Germany 5,767	Spain 6,529
Japan	29,720	Australia-N.Z. 3,476	Thailand 2,803	Philippines 2,467	S. Korea 2,403

EXPORTS OF TRANSPORTATION EQUIPMENT
(Other than Road Motor Vehicles)

Country	Total Exports	Exports to Major Markets (1000 U.S. dollars)					
		U.S.	U.K.	Germany	Australia		
Canada.....	244,941	186,896	5,339	2,265	2,647		
Switzerland.....	13,113	U.S. 880	U.K. 1,609	Germany 1,199	France 1,268		
Sweden.....	207,662	U.S. 2,500	Denmark 5,060	Norway 129,582	Finland 6,740		
Denmark.....	81,684	Norway 10,822	Germany 4,442	Sweden 2,102	U.K. 1,268		
France.....	340,511	U.S. 37,936	Belgium 6,547	Germany 24,100	Italy 11,551		
Germany.....	393,691	U.S. 13,291	Belgium 7,178	France 26,884	Netherlands 23,730		
Italy.....	151,568	U.S. 12,704	France 8,084	Germany 9,508	U.K. 24,762		
Japan.....	838,903	U.S. 10,827	Liberia 310,560	Norway 95,881	S. Korea 20,646	Philippines 21,026	India 23,475

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967-68

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

THURSDAY, FEBRUARY 1, 1968

LIBRARY

★ FEB 28 1968 ★

Subject-matter of

RESPECTING
the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

From the Canadian Chemical Producers Association: Dr. D. E. Jones, President; Messrs. D. D. Stokes, R. B. MacPherson; K. B. Mathewson, and D. S. Hart. *Representing the Canadian Salt Industry:* Messrs. J. H. Rowland and A. D. Huffman. *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs. *From the Department of Trade and Commerce:* Mr. T. M. Burns, Director, Section II, Office of Trade Relations. *From the Department of Industry:* Mr. L. F. Drahotsky, Chief, Commercial Policy Division.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

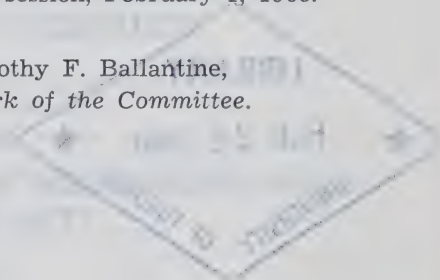
Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Gilbert,	Macdonald (<i>Rosedale</i>),
Beaulieu,	Hales,*	Mackasey,
Cameron (<i>Nanaimo-</i>	Hees,	McLean (<i>Charlotte</i>),
<i>Cowichan-The Islands</i>),	Irvine,	Monteith,
Cantin,	Laflamme,	More (<i>Regina City</i>),
Comtois,	Latulippe,	Noël,
Flemming,	Lind,	Thompson,
		Wahn.

*Replaced Mr. Lambert at the afternoon session, February 1, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.



ORDER OF REFERENCE

THURSDAY, February 1, 1968.

Ordered,—That the name of Mr. Hales be substituted for that of Mr. Lambert on the Standing Committee on Finance, Trade and Economic Affairs.

Attest:

ALISTAIR FRASER,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, February 1, 1968.

(28)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Gilbert, Gray, Hees, Irvine, Lambert, Latulippe, McLean (*Charlotte*), Monteith, Wahn—(13).

Also present: Mr. McKinley, M.P.

In attendance: *From the Canadian Chemical Producers Association:* Dr. D. E. Jones, President; Messrs. D. D. Stokes, R. B. MacPherson; K. B. Mathewson; D. S. Hart. *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs. *From the Department of Trade and Commerce:* Mr. T. M. Burns, Director, Section II, Office of Trade Relations. *From the Department of Industry:* Mr. L. F. Drahotsky, Chief, Commercial Policy Division.

The Committee resumed consideration of the proposed Customs Tariff resolution.

Mr. Lambert asked a question concerning Item 42700-1 (machines and their accessories) to which it was agreed the officials would provide a written answer which will be printed as an appendix when available.

The Chairman introduced the witnesses from the Canadian Chemical Producers Association and, at his request, Dr. Jones summarized the brief of the Association. (*See Appendix R*).

Agreed,—That answers provided by the Department of Trade and Commerce to certain questions of the Chairman be printed as an appendix. (*See Appendix S*).

Agreed,—That the brief of the Canadian Farm and Industrial Equipment Institute be printed along with the comments of the officials when the latter are available.

Agreed,—That the document tabled at the meeting of January 31 by Mr. Hooper entitled *Memorandum regarding Section 6 of the Customs Tariff Act—Dumping Duty* be included as an appendix. (*See Appendix T*).

At the Chairman's request, Messrs. Annis and Burns commented on the brief of the Chemical Producers Association.

Messrs. Jones, Hart, Mathewson, Stokes and MacPherson were questioned and Messrs. Annis and Burns also answered questions directed to them.

In answer to a question by Mr. Gilbert on the subject of exports by Canadian owned companies, Dr. Jones agreed to provide the information later

to the Committee. It was agreed that the information will be printed as an appendix when available.

The questioning having been concluded, the Chairman thanked the witnesses, who then withdrew.

At 1.10 p.m. the Committee adjourned to 3.30 p.m. this day.

AFTERNOON SITTING

(29)

The Committee resumed at 3.45 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gray, Hees, Irvine, McLean (*Charlotte*), Monteith, More (*Regina City*), Noël—(9).

Also present: Mr. McKinley, M.P.

In attendance: Representatives of the Canadian Salt Industry: Messrs. J. H. Rowland, Vice-President, Marketing, The Canadian Salt Company and A. D. Huffman, Marketing Manager, Domtar Chemicals Limited, Sifto Salt Division. The same government officials as were present at the morning sitting.

The Chairman introduced Messrs. Rowland and Huffman and Mr. Huffman summarized their brief. (*See Appendix U*).

At the Chairman's request, Messrs. Annis and Burns commented on the brief of the Salt Industry.

The witnesses were questioned and at the conclusion of the questioning, they were thanked by the Chairman, and withdrew.

At 5.00 p.m. the Committee adjourned to 11.00 a.m., Tuesday, February 6, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday February 1, 1968

The Chairman: Gentlemen, I think we are in a position to begin our meeting, unofficially for the moment, and therefore you will have to reserve certain procedural matters that require motions until we are in a position to act officially. I believe Mr. Lambert would like to direct a question to the Department of Industry to be answered in written form in due course.

Mr. Lambert: Thank you, Mr. Chairman. This concerns tariff item 42700-1 and is the matter of the incidence of sales and excise taxes. As we know the item permits a remission of duty under certain conditions and my question is: Will this remission of duty also take into account a remission for an aliquot portion of sales tax on equipment that has been brought in on which duty has been paid and then a remission applied for.

There is some information to the effect that if the machine or parts thereof have been brought in, duty paid on them, sales tax paid on the duty-paid value, and if a subsequent remission of duty were granted there would not be a remission of an aliquot portion of the sales tax.

On the other hand, if a ruling had been sought beforehand to include a remission of duty, or an admission free of duty, the sales tax would be based and paid on that set value and therefore that importer would be ahead of the man who had paid the duty and sales tax and had not been able to recover a portion of the sales tax. I would like to have a clarification of that point.

The Chairman: I will ask the officials concerned to reply with a written answer which will also be printed in our *Proceedings*.

This morning we have with us representatives of the Canadian Chemical Producers' Association. The delegation is lead by Dr. D. E. Jones, President of the Association, who is on my immediate right. To his right are Mr. D. D. Stokes, Mr. R. B. MacPherson, Mr. K. B. Mathewson and Mr. D. S. Hart.

Briefs have been distributed previously to the members for study. I therefore ask Dr. Jones to present the brief to us in summary form.

Dr. D. E. Jones (President, Canadian Chemical Producers' Association): Thank you Mr. Chairman and gentlemen. I would like to start by saying that we do welcome this opportunity to meet with your Committee. We believe it to be a very excellent innovation. Perhaps this is the beginning of a practice that will become well established in Canada.

We represent the Canadian Chemical Producers' Association, an association of 46 members formed in 1962 as a trade association. It represents a very substantial proportion of the chemical manufacturers in Canada and I think we can truly say that we represent a great majority of this industry.

To give some parameters of the industry itself, it employs as a whole about 74,000 people. It has annual sales of about \$2.3 billion. I would like especially very briefly to call your attention to what I believe to be three characteristics of this industry, mainly that it is in itself a good employer and a substantial employer. Second, it is an employer of highly-skilled labour. The work people are highly skilled and there is a very high content indeed of graduates from universities and places of learning so that it is, in addition to being an employer of highly skilled people, a pool of technical knowledge and know-how in Canada so that it has additional sinogistic effects in addition to its own content.

Lastly, being a highly technological industry in which the technology is rapidly changing, it is one that as it were catalyzes other industries. It produces new products and these new products seep into the general economy, thereby stimulating other ancillary and satellite industries.

That is the background, gentlemen, of who we are and our industry, but I know you wish me to get quickly to the subject of this meeting which is the Kennedy Round of tariff negotiations. I think I must say at the very beginning that so far as the chemical industry

in Canada is concerned, when we consider the Kennedy Round as we now know it we are not concerned with tariff rates that are known to us which will become the law of the land, but rather with maxima, with bindings. I think that is a rather significant point.

May I divide chemicals for ease of explanation into two areas, chemicals and synthetic resins. The distinction is somewhat artificial but there is a distinction technically and there is a great significance commercially. In the case of chemicals Canada went in with an MFN rate of an average of about 20 per cent. This was cut to 15 per cent and will take place when we know the rate—this is the bindings, the top rate—as one fell swoop on July 1, 1968. It is a 25 per cent reduction and that, if that be it, is significant. I may say that in countries like EEC that was the general level from which they were negotiating but, as you will doubtless recall gentlemen, reductions in the EEC are conditional upon the American Selling Price being repealed by U.S. Congress so that the first step in the other countries—EEC, U.K.—is that they will reduce by 20 per cent on July 1, 1968, and the other 30 per cent subsequently and conditional on the removal of ASP.

Now, in the case of synthetic resins Canada entered this round of negotiations in an exceedingly difficult position. Synthetic resins, by the way, gentlemen, is the growth area of this very dynamic chemical industry and Canada entered this round of negotiations in a very disadvantageous position; EEC were of the order of 20 per cent and the U.S. were very considerably higher. Canada, on the other hand, had rates of zero to 7½ per cent.

Once again the reductions that will take place in other countries are subject to the same conditions as for chemicals. I think one must give some credit to the skill of our negotiators. There was a small rise in the bound rate—and again I emphasize, not the rate that is not known—the bound rate on plastics will be 10 per cent in Canada, but this is the rate that the EEC will hopefully get to on January 1, 1972 provided ASP goes; otherwise it is 30 per cent.

In the United States of course, the rates are very high. We are then talking rates of 25 to 35 per cent, so that even with 50 per cent reductions, it still is a very high barrier to overcome.

That is the general picture and I hope you will bear with me when I emphasize again that all we have on chemicals are bound

rates. They are not the rates that will become the law of Canada.

Now, another step is necessary. Starting in 1956 the Tariff Board, under the direction of the then Minister of Finance, undertook a tariff inquiry into the chemicals and plastics industries. The first report was published on June 12, 1966, and the action that is to emerge from those deliberations has yet to be taken. The action I believe the Parliament of Canada will now take, is to take together the tariff board report, the bindings under the GATT and come up before July 1, 1968 with a Canadian chemicals tariff. There lies the problem then.

What I would like to submit quickly if there is time are several points for your consideration. First, we entered into the Kennedy Round of GATT and paid certain prices for certain concessions. That has been done. We have paid the price, and we have got the concessions. In other words, the bound rates are the rates that you have to pay to get something. I would submit, gentlemen, that it would be very good commercial sense surely at this juncture, not to pay any more for what you have already bought. So I would suggest that they strongly feel that the bound rate should, in fact, become the statutory rates in Canada. There are a number of additional factors I think you should add to that to supplement that comment.

First of all, when the Kennedy Round ended on June 30, 1967, it seemed reasonably clear cut; there were certain things given, certain things received. I would suggest, Mr. Chairman and gentlemen, that at least the atmosphere has changed a little bit since that time, and I will just name two examples. The concessions from EEC and other countries, coming ultimately to 50 per cent cuts, are conditional on the U.S. Congress repealing ASP. I suggest that there is at least some doubt whether that will happen.

The other point I would make—I am no expert on this and I do not really understand what it means—refers to the European added-value tax. What its real significance is I have not yet discovered, but what I do know is that it certainly has exercised the United States sufficiently for them to say that should this happen they may or probably will introduce export subsidies and import taxes. Canada, I think, also responded that they may do the same. I suggest to you, gentlemen, that those are reasons not to take unilateral action in this.

Another point I would like to make is of very great significance, probably at least as powerful as, and possibly even more powerful than, the ones I have already mentioned. There is a very interesting study of the Canadian chemical industry being undertaken at this time by the Chemicals Branch of the Department of Industry. This study we support fully and strongly endorse this approach to our economic problems. This study is at the initiative of the Chemicals Branch, and I can assure you that the industry is giving its full support with its expertise and knowledge.

This industry, I am sure you will realize, is a very complex one, and although the study has started and is well under way, it is going to be quite some time—I would say probably towards the end of this year—before the findings of this study are known. I would therefore urge, gentlemen, that you do not anticipate in any way the findings of that economic study, but rather that you stick quite firmly with what you bought and what you paid for it. It seems to me that this would be commercial and economic prudence and, as everyone knows, it is a fairly simple matter to bring tariffs down. I have a sort of feeling the converse is not quite so easy.

That is the Kennedy Round and obviously you would like to know in a nutshell what we think, as an industry, it will do for the Canadian chemical industry. We made our views known on this when we presented a report to the Canadian Committee on Tariffs and Trade in April, 1964. In it we did spell out quite clearly that in our judgment a 50 per cent cut in overseas tariffs would not materially benefit the Canadian chemical industry. We also pointed out that cuts in Canadian tariffs would be likely to be detrimental to this industry. We recently had a meeting of our export committee on this matter and those views are still held.

Gentlemen, if I may move quickly to another area that is of considerable concern and of very great importance to the chemical industry and, indeed, to all manufacturers, but I think particularly to the chemical industry because of its multiplicity of products, and I am referring to anti-dumping. As you know, Canada has at present anti-dumping legislation and we as an industry would be the last to suggest that this represented perfection and was in all ways the answer to industrial ills. On the other hand, one does feel forced to say that it has served the industry well, and whereas there were defects the

over-all effect was not bad, in our judgment. Now, as you know, Canada at Geneva did negotiate, parallel with the Kennedy Round, on an international anti-dumping code. Canada is a signatory to that code and that code will have to be turned into Canadian legislation to the implemented on July 1, 1968.

I would like to make just a very few comments on this. First of all, the code springs out of Article VI of the GATT, and that to my recollection says, categorically, that injurious dumping is to be condemned. Who could disagree with that? Of course, it must be. But when you come to the international code assigned it does appear to us—and I do not say this critically—that the flavour, as it were, has slightly changed, and that whereas in Article VI of the GATT it seemed to condemn injurious dumping, when you look at the code it almost suggests that it is written to make the catching of the injurious dumper difficult. There are a number of words there such as the word “principal”—“the principal cause of injury”—which is not in GATT at all.

Gentlemen, my enthusiasm may be running away from me, but I believe that if ever such a word appeared in Canadian legislation—that dumping is the principal cause of injury—we would be wide open. When you say “principal”, what do you mean?

There are other words, such as “injury”, which are nebulous. Many, many treatises have been written on what is “injury”.

Definition of “industry” is difficult. If you have it very wide you never catch anybody; if you have it very narrow the same thing probably happens. What I am really hoping, gentlemen—and I know it is not before you yet—is that the bill on anti-dumping will soon be returned to the House and that it will come to your Committee so that we will have an opportunity to make representations. There are words to watch for so that a proper approach can be made.

Our other point is that the administration is obviously going to be of great importance. Not only have you now to determine, as hitherto, “dumping”, but also “injury”. This is an additional problem.

Lastly, gentlemen, in this area of anti-dumping I would say, above all else, that so long as the law is written within reasonable parameters and the administration is there to enforce it, the whole thing is the will to do it. Will the purpose of this Canadian anti-dumping legislation be to protect the Canadian producer from injurious dumping? If that is so,

if that is clearly said, then I think there is hope; otherwise, I do believe that, concerned as we are with some of the cuts in tariffs in the Kennedy Round proper, the damage—I am trying to find a word—the “malproper”, or not so effective, implementation of anti-dumping legislation could be catastrophic.

I have talked much longer than I intended, Mr. Chairman.

The Chairman: Thank you, Dr. Jones. I should note for the record that we have been in the position to proceed officially since shortly after Dr. Jones began his submission.

There are a few procedural matters. First of all, I have a letter, with attachments, from Mr. M. Schwarzmann, Assistant Deputy Minister of Trade Policy, dated January 31, 1968, addressed to myself. He says that in the course of the proceedings of the Committee last week several questions were raised pertaining to the European Economic Community's import quotas on certain products; Canadian exports of uranium to the United States; the Brussels Tariff nomenclature; and Canadian trade relations with South Africa. Replies to these questions are attached.

These questions, of course, were raised by various members of the Committee, and in accordance with our usual practice they will be printed in the next appropriate proceedings.

The Canadian Farm and Industrial Equipment Institute has submitted a brief and says that they do not wish to appear in support of it. It was distributed to Committee members on January 23, 1968. Perhaps the Committee will agree that it be printed in our proceedings. However, it occurred to me that departmental officials, in line with the practice we have adopted, may wish to make some comments on the views expressed in the brief. If this be the case, I would suggest that the officials also put these in written form so that the brief and the comments appear together in the record of proceedings. Therefore, rather than ask for your agreement to having the brief printed and attached to a particular proceeding, perhaps you will leave it to my discretion to see that the brief is printed as soon as possible, consistent with the receipt of any comments these officials may wish to make on it. Does the Committee agree with my suggestion?

Some hon. Members: Yes.

The Chairman: I have a third point. Yesterday, in the course of his testimony, Mr.

Hooper, a customs consultant, submitted a memorandum expressing his views on the question of dumping duty. It was suggested that rather than have him read it into the record it should be submitted this morning for the Committee's consent or otherwise to its being printed in the record of our proceedings. It is approximately two pages long.

I presume the Committee will agree that it be printed. Are we agreed?

Some hon. Members: Yes.

The Chairman: Before opening the meeting to exchanges of question and comment between the members and our witnesses, I would ask the officials whether they have any preliminary comments on the views expressed by Dr. Jones on behalf of the Canadian Chemical Producers' Association. Dr. Annis?

Dr. C. A. Annis (Director of Tariffs, Department of Finance): Mr. Chairman, I have no views of substance to express in that regard.

The only comment that I would like to make is that I am grateful to Dr. Jones for having provided the very convenient summary of what is the real core of the present position on rates of duty and commitments relative to basic chemicals and plastics and what was involved in the Kennedy Round discussion about the findings of rates and duties. It seemed to me that although this is necessarily couched in rather broad terms, which necessarily omit some matters of detail, it is an accurate statement of the real core of the situation and of the problem.

My only further comment is on his later suggestions, which were really suggestions on policy. We have taken note of them.

Some of these suggestions, or representations, have already been made direct to ministers. We are aware of them and they are under consideration.

The Chairman: Mr. Burns, do you have any comments to make on any elements of this submission that may come within the jurisdiction of your department?

Mr. T. M. Burns (Director, Section II, Office of Trade Relations, Department of Trade and Commerce): Thank you, Mr. Chairman. I think it might be preferable to defer any comments that we might make on the export possibilities until the detailed questioning, rather than to make a general statement at this time. Thank you.

The Chairman: Mr. Drahotsky, do you have any preliminary comments?

Mr. L. F. Drahotsky (Chief, Commercial Policy Division, Department of Industry): I have no comments on this submission, sir.

The Chairman: Now I will accept questions from the members of the Committee. I recognize Mr. Hees, followed by Mr. Clermont. Perhaps the others would signify in the usual way. Mr. Hees?

Mr. Hees: I was interested, Mr. Chairman, in the fears expressed by Dr. Jones about the working of the proposed new anti-dumping regulations. Would it be a correct summary of his views to say that his fear is that the procedure would take too long to implement? Many things are sold at the time the market is ready for them, and when the market season ends they really are not very saleable; and the damage has to be proved. You first have to allow the person bringing in the cheap goods to put them on the market; some time has to be allowed for these goods to be sold; and then the report has to go in from the people in Canada who feel that their interests are being hurt by what they claim to be dumped goods. By the time the board hears this and brings down a ruling the season is over, the damage has been done and the Canadian producer may easily have been put out of business, because the business will not recur? Is that how you feel about it?

Dr. Jones: That is exactly how we feel about it, Mr. Hees. We feel that speed is of the essence. In addition to speed, it is the posture of one's approach to this. I think that this is particularly so in Canada because, by the definition of what an industry is, you can get minor modifications in the chemical which will essentially do the same thing but it may be deemed to be a different chemical. The other danger that we see is what we call the first bite. Under our administrative practices goods come in and are appraised and cleared immediately, and therefore there is no chance of going back to that which could be dumped. I think it is very important to see that legislation and administration takes that into account, otherwise you could find a chemical country being injured by a series of bites. A lot of those bites are as good as one very severe one.

Mr. Chairman, may I ask Mr. Hart, who is very knowledgeable on this whole matter of

anti-dumping, if he would care to add anything to what I have said?

The Chairman: Yes, you may feel free to have any member of your delegation deal with or supplement any comments you make.

Before calling on Mr. Hart perhaps I should ask witnesses to plug into the interpretation apparatus so that we may move freely in both of our languages of official status.

Mr. Hart, would you like to add something about anti-dumping?

Mr. Hart: Mr. Chairman, in answer to that enquiry by Mr. Hees, imports of seasonal merchandise, so far as the chemical industry is concerned, is not of nearly so much significance as it would be in the case of fresh fruits, vegetables, garments, clothing and so on, so it is unlikely that the chemical industry would be affected significantly by imports of seasonal merchandise. But the chemical industry is very much concerned with imports at dumped prices being permitted to come into the country without any prospect that the initial import—that is the first import of that product—can come in without being subject to assessment of dumped duty eventually. If exporters know that it is going to take sometime before injury can be determined, before a determination of dumping can be made, then they may take all sorts of chances in exporting to Canada in the expectation that they will get away with it for a significant period of time, and in some cases this would cause serious injury to Canadian industry. We are concerned about that.

Mr. Hees: I am interested in what you say because having been a practical businessman for some 20 years, engaged in the house furnishing, manufacturing and merchandising business, it seems to me that those who negotiated or agreed to this anti-dumping code on our part could not have had any practical experience in business or they never would have agreed to it because the kind of things that you have mentioned, that I have mentioned, and Dr. Jones has mentioned are the kind of things that hit a practical businessman right in the face. And he knows immediately what is going to happen if he has dealt with government, if he has dealt with imported goods, and if he has experienced difficulties in getting a report from government when an application is made.

I would like to ask Dr. Annis who did the negotiating on the part of Canada in this particular sphere.

Dr. Annis: I think the usual practice, Mr. Hees, is that civil servants remain anonymous but in this case, it has already been indicated publically that it was Mr. Rodney Grey, our head of the Canadian team.

An hon. Member: Is he here?

Dr. Annis: No, he is not here but, you will recall he appeared before the Committee on an earlier occasion.

Mr. Hees: Well perhaps we were not as aware as we are now of the really grave difficulties that this suggests and I would appreciate it, Mr. Chairman, if he could be recalled as soon as possible so we can ask him some very pertinent questions about this. I would like to know just what he was thinking about, if Canada put up any protest whatsoever, and if he really thinks that this new Dumping code will be of any protection whatsoever to Canadians. As has been pointed out here, the first allowed dump is of tremendous significance. If a producer from abroad is able to bring in goods at a very low price and is going to be allowed to get away with it then he can put whole industries out of business in no time at all. We ran up against this when dealing with the Japanese on stainless flatware, transistor radios and canvass footwear when I was in the Department of Trade and Commerce, and if we had not been able to persuade them to voluntarily and greatly modify their exports to this country, whole industries would have been wiped out, and I can see a recurrence of this happening. I can imagine the Japanese, the Americans or some other big producers seeing a wonderful opportunity to move in and dump tremendous volumes of goods in this country at ridiculously low prices—the kind that would prevail if we ever went into straight free trade with the United States or Japan—and whole industries could be put out of business before anything could be done about it. Once they have been allowed their first free dump, then of course proof has to be obtained that harm has been done, and knowing the length of time that government committees—no matter what government is in power—take to deal with and bring down reports on these important matters, I am afraid industry is in for a very serious time indeed.

I quite agree with you, Dr. Jones, and the others on your panel that it is not so much the Kennedy Round tariff reductions that are to be feared here; it is what I believe to be completely foolhardy and unworkable anti-dumping code that has been agreed to by this

government. I want to have Mr. Grey and the Minister concerned to appear before this Committee in order that we can find out just what in the world they were thinking of because, as a businessman, this whole thing shocks me. That is all I have to say, at the moment.

The Chairman: Mr. Hees has requested that we recall Mr. Grey and possibly the Minister on this point. I should point out to the Committee that both Mr. Grey and the Minister were before us for questioning earlier in our proceedings. I would also like to bring to the Committee's attention that strictly speaking the anti-dumping code is not part of our terms of reference. I think we are discussing it now because basically I interpreted the terms of reference somewhat liberally so that we would be in a position to understand just what was involved in this related element of the Kennedy Round negotiations.

The Committee may well feel that it would be most useful to deal with this matter—which, as Mr. Hees has so strongly put it, is very important—when the draft legislation for implementing the provisions of the code is available to us. It may be that some of the worst fears expressed, both within this Committee and elsewhere, will not be borne out by the legislation or, on the other hand, we may even be more concerned than some people are at present. I think perhaps we could take this under advisement and in our final report we may want to urge that this legislation in draft form be referred to us so that we can see in detail just what is likely to happen.

I think Mr. Grey made it quite clear to us that the drafting process is actually underway at the present item and even as a civil servant if he were in a position to deal directly with some of the points which you have raised, and I have some doubts about that because final decisions may not have been taken on the formal legislation, I do not know if we would be spending our time in the useful way which Mr. Hees wants us to spend it on this very important question.

Mr. Hees: I would then request that the Minister responsible come before the Committee to answer these questions and to discuss the matter with us, Mr. Chairman, because I think the sooner we get to the bottom of this and have a satisfactory discussion the better it will be all round.

The Chairman: I think we are all in agreement on that. I am just suggesting to the Committee that we may be able to do the most effective job if we are also able to see, at the same time, at least a bill in discussion draft form or something of that nature...

Mr. Hees: I agree.

The Chairman: ... and I gather from our earlier evidence that even in a very limited way such a draft is not yet available. Am I correct in my assumption, Dr. Annis, that this may be something we can put into our report to the House asking that we be given additional authority to deal with because there is no question that this is a very important matter?

Mr. Hees, do you have any further questions at this time?

Mr Hees: No; that is all.

[Translation]

Mr. Chairman: I now give the floor to Mr. Clermont, after which we will hear Mr. Lambert.

Mr. Clermont: Mr. Chairman, on page 6 in the French version of the brief of the Association appearing here today, I note that:

The Canadian chemical industry is the only industry of all the industries and countries participating in the Kennedy Round that still does not know what tariff rates will apply on its products.

My question should perhaps be directed to the representative of the Department of Commerce, Mr. Burns, rather than to the members of the delegation. Is this a fact, Mr. Burns? Is Canada the only country where the Chemicals Sector, does not know the current rates of tariff for its competitors?

[English]

Mr. Burns: Mr. Chairman, I believe the answer why Canada is going to make its cut in one stage had perhaps better be answered by Dr. Annis.

The Chairman: Dr. Annis, can you provide some information on this?

Dr. Annis: Yes. In our case, what is done here involves two separate operations. One was binding certain rates of duty—in other words giving concessions under the Kennedy Round—and asking a price for those commitments. The other was paving the way for the introduction of a complete new schedule

relating to chemicals which involves rewriting all the present items, combining some, splitting others and this is an exercise which obviously cannot be staged.

Where one has clear cut reductions of rates it is practicable to stage them but one cannot stage the rewriting of a definition, and in this case hundreds of definitions were revised so it seems to me that there was no choice but to introduce the new schedule in a single step. We must recognize that that change involves not only reductions in certain areas but increases or, assuming as has been indicated that the Tariff Board's recommendations will be outlined, increases in certain other respects, so that here we had a package that quite clearly, I think, could be implemented only as a package and not subdivided with the staging of the reductions and one-step introduction of changes in nomenclature and certain increases which also are in prospect.

Mr. Burns: Mr. Chairman, may I just add a word about other countries just to confirm Mr. Clermont's assumption that most other participants in the Kennedy Round will be making their reductions in the chemical sector as in other sectors on a stage basis. There are some minor exceptions to this but as a general rule it is on a five-stage basis. Thank you, Mr. Chairman.

[Translation]

The Chairman: Mr. Clermont, do you have any further questions?

Mr. Clermont: Does the representative of the chemical sector have any comments to make following the explanations given by Dr. Annis?

[English]

The Chairman: Dr. Jones would you or your colleagues care to comment on Dr. Annis' reply as supplemented by Mr. Burns?

Dr. Jones: Yes, I think possibly just for the record I should make some comments. I think Dr. Annis is perfectly right that the position was more complex because of the change to the present nomenclature and therefore not only did the tariff rates have to be changed, so did the definitions and explanations. But I think you may, in addition to that though, prefer the point that what we now have are not rates but bindings and the bindings which are now known to us as emerging from the Kennedy Round are not the rates that will become the law of Canada. We still do wait

for those and the problem, as I see it, is that somehow Parliament has to meld the Kennedy Round and the Tariff Board report and it is out of the combination of those two, presumably, that Parliament will evolve the chemical tariffs that become operative on July 1, 1968. So I agree with your explanation, Dr. Annis, but there is another one, too.

Dr. Annis: Mr. Chairman, I would agree with the addition that Dr. Jones has made and could go on to add one further point, and that is that the Minister of Finance has already indicated in Parliament his intention to introduce resolutions at a later stage which would do just what Mr. Jones has suggested.

[Translation]

Mr. Clermont: In his first comment, Dr. Annis mentioned that the Tariff Board would perhaps make recommendations concerning chemical products. Moreover, I note on page 7 of the French version of the brief submitted by the Canadian Chemical Producers' Association, the evidence of a certain fear, namely, that if the recommendations of the Tariff Board were adopted without any amendment, these recommendations might be very prejudicial to their Associations. They give one example:

the recommendation that the statutory rates on all synthetic resins, that are not as yet produced here be free...

Could we hear about other cases where the chemical sector might be affected if the recommendations of the Tariff Board were incorporated in the new bill without any amendment?

[English]

Dr. Jones: May I answer that, Mr. Chairman? Indeed, you are completely right, Mr. Clermont, that the Tariff Board Report, if implemented as is, would be disastrous. It ignored completely the recommendations of the industry. The industry recommended essentially as its main plank that this is a dynamic, growing industry and that all chemicals are not known at this time, that such is the research and development of the industry that new products are created.

For some reason, in the most rapidly growing area of the industry which is making synthetic resins, the Tariff Board recommended that the chemicals of the future—the ones that will give employment in this country; the ones that will create new jobs—these

brain children of the future have a statutory rate of free, free and then came up with the recommendation that the means, the way to deal with this in the future if someone does in those circumstances happen to do research—and it would be problematical—and happen to come up with a good product, would be to go to Parliament to have a rate established. The study is possible but I think you would agree, gentlemen, it is a very long and elaborate process and it is constantly the practice of almost all major industrialized countries who value this and wish to have a progressive and dynamic chemical industry. In our judgement it would be a very serious matter indeed if the Parliament of Canada were to implement that part. My colleagues have points as well, but that is our major comment.

Another point, of course, is their approach to the most dynamic part—the real growth part—of a growth industry, and that is why they recommend such low rates. In our opinion, gentlemen, this is incredible in the light of what other major industrialized countries do.

[Translation]

Mr. Clermont: Mr. Chairman, concerning the new products made in Canada in the chemical sector, I would say that the recommendation which has been made by the Tariff Board does not meet the views of the Canadian Chemical Producers' Association. And, in the French version of your brief, you recommend on page 8 and I read:

The industry requires a procedure similar in effect to the new administrative device which the government is creating for handling the duty on machinery, viz. to be able to assess duty on-made-in Canada or competitive products while not unduly penalizing someone who wishes to use a non-competitive, not made-in-Canada product.

Here is my question, Mr. Chairman: if the government established such a board, would the industry wish to have a right of appeal against the decision of such a board or would the decisions of the board be final?

[English]

The Chairman: I understand what Mr. Clermont has in mind. We presume you have familiarized yourself with the proposed method of operation of the machinery program and possibly you have even heard or read

some of the testimony and discussion to date before this Committee. I think Mr. Clermont is raising the question as to whether the form of the administration of the machinery program, as it presently exists, would be satisfactory to your industries with respect to chemicals or whether you would wish to see added to this—if I summarize Mr. Clermont's very interesting question correctly—a further tribunal by which a final appeal could be made beyond the level of the Minister and Governor in Council.

Dr. Jones: Thank you, Mr. Chairman. I think that is a very interesting question, Mr. Clermont. We are suggesting something similar but not identical, and if you agree I will ask Mr. Mathewson to deal with your question precisely because he has very great knowledge of this aspect of our business.

Mr. K. B. Mathewson (Canadian Chemical Producers' Association): Mr. Chairman, the proposal we had was similar in effect to the machinery technique but it was, perhaps, a simpler system. What we really had in mind was a continuation and extension of the present practice that is now being used with an Order in Council exception at a lower rate for a stated period of time on a product. The basic problem we encountered in industry was to get statutory rates raised. Tariff Board Reference 120 is a perfect example. Here it is 13 or 14 years since it began. . .

The Chairman: How long ago was it?

Mr. Mathewson: It has been 13 or 14 years since the matter was originally referred to the Tariff Board. I have spent half my business life on this; I was in my thirties when it started and I am now nearly fifty.

The Chairman: You still look youthful.

Mr. Mathewson: Thank you, but I would rather have spent my time doing business on this. I think you will agree that it was not a prompt way of accomplishing a change.

The Chairman: If I may say so, it sounds something like a description by Dickens of the proceedings of the old Court of Chancery in the early days of the Victorian age in Britain, although this may be an unfair comparison.

Mr. Mathewson: The point I was trying to make is that if you have to go through a Tariff Board reference, this sort of a procedure and then finally an Act of Parliament

—with all due respect to the different groups involved—it can be a long drawn-out affair. The way our laws are set up you can drop a tariff overnight by an Order in Council, but to raise it requires an Act of Parliament.

Therefore what we were suggesting, to over-simplify it, was a statutory rate on everything and then, where products needed or warranted a lower rate, they could be so accorded. They could go to the Department of Finance or a similar group and point out that the products were not available in Canada, were not competitive with Canadian materials, and actually use the same system, that is used in the United Kingdom where they publish a list of products and say, "These products will be at these lower rates until October, 1969". When that time is reached, if the circumstances have changed, they delete some of the products, add some others or let them lapse.

It was a system similar to this that we wanted because these unknown products—they may be known to the world but as yet are not made here—the ones that are growing, changing and becoming important, will in most cases not be made in Canada if the rates are free and if people can establish plants in other countries, which countries are protected by tariffs and on top of that have the Canadian market to boot. We really were not suggesting a board exactly like the machinery board, but the principle was the same in that we did not wish to penalize those products that were really not available or competing with Canadian materials, but we wanted to have an atmosphere where sound Canadian business could grow and expand.

Dr. Jones: May I just add a word to that, Mr. Chairman? I think Mr. Mathewson has given you a very excellent account of our ideas. However, the real significance is that unless you have a reasonable picture of the future why would you do research and, indeed, how can you plan your future capital investments and your future Canadian jobs unless you know that if you invent product "X" it will fall into a certain category which will then attract a certain rate. These things need to be known if industry is to plan ahead, and it takes several years for an industry to do that. It is with that in mind that we have strongly urged the Tariff Board to recommend this procedure.

[Translation]

Mr. Chairman: Mr. Clermont, you have the floor.

Mr. Clermont: Mr. Chairman, the following question deals with the anti-dumping legislation. Two sentences on page 10 of the French version intrigue me. They relate to the anti-dumping law and I read:

The code on the other hand is primarily an instrument for facilitating dumping without penalty.

What do the representatives of Canadian Chemical Producers' Association mean by these words?

The Chairman: You are quoting from page 10, are you not? Would you please indicate again the exact sentence which you are particularly interested in.

Mr. Clermont: It is on page 7 of the English version. The code, on the other hand, is primarily an instrument for facilitating dumping without penalty.

[English]

Dr. Jones: Yes, Mr. Chairman, I think I can answer that question by saying we really should have added the words "as it affects Canada". I think our concern there was that the seeming change in atmosphere or intent when one went from Article 6 of GATT to code appeared to us to be such that one could almost believe the code had been drawn up by someone who wanted to encourage dumping rather than by people who wanted to stop injurious dumping. We still remember the experience of a number of years with a similar procedure in the United States. Possibly Mr. Hart would care to enlarge on this.

Mr. D. S. Hart (The Canadian Chemical Producers' Association): I am not sure, Mr. Chairman, that I can say very much more than has already been said, but a very careful examination of the code has indicated to us very clearly that many situations have to be examined. Conditions have been imposed that would tend to favour exporters who wish to sell into this country when they are competing with other countries that have lower domestic prices than theirs.

The Chairman: Thank you, Mr. Hart. I now recognize Mr. Lambert.

Mr. Lambert: With respect to anti-dumping, is it a fair assumption that the anti-dumping code has received favour primarily among countries where, frankly, they do not have to worry about an anti-dumping code because they have so many built-in non-tariff features of different kinds that they can beat you six different ways every Sunday, and

because Canada does not indulge in things like the Buy-American Act—I cite that as an example, but it exists in most European countries—we are being offered as lambs for the shearing. We will be completely unprotected if Canada's principal weapon against dumping were to be removed.

Dr. Jones: Yes, Mr. Lambert, I agree. I think it is possible and even probable that we have removed from the Canadian manufacturing industry a very important element of justifiable protection. I should say that I think it is possible to write legislation and administer legislation that could possibly be effective, but there are an awful lot of "possibles" in that sentence. Our fear is that we may have yielded something very significant.

Mr. Lambert: My second point deals with the reclassification under the Brussels Nomenclature. Does the chemical industry feel that this was a forward step?

Dr. Jones: Yes, we do. We think it is a much better classification for chemicals and about 85 countries have adopted the Brussels Nomenclature, generally. All together, I think it will be a much better classification.

Could you add something to that, Mr. Mathewson? You are our expert on this.

Mr. Mathewson: Actually, sir, if I recall correctly—it was a long time ago—the industry recommended that the Brussels Nomenclature be used. We studied the different systems used in different countries and felt this was the most universal one. It is a very handy system because, regardless of the actual tariff numbers, if you want to find a rate on a particular product you look up the exact same code number and you can find it. You do not have to try to interpret a lot of other phrases and hunt all through a strange tariff. Under the Brussels Nomenclature the same number is always used and the same products are always in the same place. They may be free or they may be 100 per cent, but that is another subject. This is very handy both for trading and for general knowledge.

Mr. Lambert: And for administration as well?

Mr. Mathewson: Yes.

Mr. Lambert: Is it your opinion that your industry now will operate entirely under the code of the Brussels Nomenclature or will there still be an area of the former Canadian Nomenclature?

Mr. Mathewson: Probably I should let Dr. Annis answer this but if you want my opinion, there has to be a fringe area because the whole tariff was not changed and therefore we had to weave a patch on to the existing tariff, if you like, and the loose ends had to be woven in. This, I am sure, was some of the extensive work that Dr. Annis' group had to do in order to tidy up these loose ends. There will be some overlap. However, I am really speaking about his efforts and I should let him speak for himself.

Mr. Lambert: But generally speaking this was a great step forward?

Mr. Mathewson: Yes.

Mr. Lambert: The third area of my questioning, which is going to be limited, deals with the proposition that the Kennedy Round negotiations were in essence a package deal. In other words, you gave concessions on primarily a dollar basis in Canada to exporters from abroad, but in return you received reciprocal compensations which would allow Canadian manufacturers or producers to enter into the foreign market. This general view has not met with, shall we say, the entire acceptance by some Canadian industries because of certain factors, and I am just wondering how the chemical industry feels? Do you think that as a result of the Kennedy Round you are going to be able to expand your export market?

Dr. Jones: No, Mr. Lambert. The answer, in the opinion of the industry, is very definitely "no". As I mentioned in my introductory remarks, we said this to the Canadian Tariffs and Trade Committee on April 29, 1964, and this was reconfirmed in an examination by our export committee as recently as a week ago. It is very difficult when there are a number of people—who are after all, your competitors—sitting around a table to let yourself pinpoint what is going to happen and who is selling where, but the consensus certainly was that there would be very little advantage to Canada in exports of chemicals and that advantage would be considerably offset by possible damage to the domestic market.

If you would agree, Mr. Chairman, I would like to call upon Mr. Mathewson, who again has been studying this subject rather carefully.

Mr. Mathewson: Just to cite some specific examples, generally speaking the most logical market for Canadian chemicals would be the United States, and the United States tariff is

a very heterogeneous one. Some items have low rates and others have prohibitive rates, and even if you get half of a prohibitive rate you may still have a prohibitive rate. This is no fault of the negotiators in that particular respect. It is because the American tariff started out where it did, but it still does not benefit you. It may benefit you after 4 or 5 of these rounds, if you are still there. I can give you some other examples, such as ethylene glycol, which has a compound rate. That is, there is a specific rate—so many cents a pound—and then an ad valorem rate. The equivalent to that under pre-Kennedy Round was approximately 48 per cent, and by 1972 it could get to around 20 per cent if the price of ethylene glycol remained the same. If the price went down the rate will go up.

In the plastics area, which is an interesting one in the growth area we were speaking about, one of the basic raw materials for one of the big plastics—styrene monomer—is now running around 100 per cent equivalent, and this is under this American selling price arrangement. No matter what they do it will still be 20 or 30 per cent. I did not do the arithmetic but it will be quite high. On the other hand, however, our rate on this is not more than 15 per cent. Take polyethylene, the biggest volume single plastic in the world—the largest of them all—on which the United States rate as of December was $2\frac{3}{4}$ cents plus 20 per cent. An important grade of polyethylene resin sold in the United States last year for about $13\frac{1}{4}$ cents. To compete with this you would have to sell at a pre-duty price of not more than $8\frac{3}{4}$ cents, and this makes a duty equivalent of about 50 per cent. Apart from that, if you could afford to do it, you would probably be dumping to boot. So you can see that these are really prohibitive rates and the import statistics bear this out.

The maximum rate proposed for bound polyethylene resin for Canada is 10 per cent. The rate proposed by the Tariff Board is $7\frac{1}{2}$ per cent. The manufacturers really do not find this very encouraging. I could go on, but these are examples. There are other places where the rates were low and where exports that were going on will continue to go on, but because of the jagged type of fence that the Americans have it is difficult to trade in chemicals there on a broad basis. So many chemicals are co-produced, and if you can sell one part of the plant and you are blocked from selling the other, the whole operation is perhaps slowed down. It is the unevenness as

well as the height of the American tariffs, particularly on chemicals, that is a major problem.

Mr. Lambert: Do you run into non-tariff barriers in Europe in the chemical field?

Mr. Mathewson: There are a number of them, but there are also ordinary tariff barriers as well. Most of the more important synthetic resins there run around 20 per cent. Some are 15 per cent and some are 23 per cent, but the big growth ones are in the 20 per cent range. Presumably they will go down to around 16 per cent in July, and what happens after that will depend on the American selling price. Even those rates, of course, are based on c.i.f. value—that includes the freight—whereas ours are based on f.o.b.

Mr. Lambert: I see. Thank you, Mr. Chairman.

The Chairman: Are there further questions from members of the Committee? Mr. Cameron?

Mr. Cameron (Nanaimo-Cowichan-The Islands): I wonder if Dr. Jones could tell us approximately what proportion of the production of the chemical industry finds its way into the export market?

Dr. Jones: Exports of chemicals are about \$400 million, which is of the order of 18 per cent.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Does most of that go to the United States?

Dr. Jones: Yes, I would think that probably two-thirds or three-quarters of it goes to the United States.

The Chairman: Excuse me, I think Mr. Burns wanted to make a comment. Do you want to hear him now, Mr. Cameron?

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes, that would be fine.

Mr. Burns: I was just going to inquire of Dr. Jones whether that figure includes, as I presume it does, fertilizers for which we already have duty-free entry into the United States and a very large market.

Dr. Jones: Yes.

The Chairman: Mr. Cameron?

Mr. Cameron (Nanaimo-Cowichan-The Islands): That alters my question. What percentage of fertilizers would that be?

Dr. Jones: I think Mr. Mathewson has these figures available, or a general outline of them.

Mr. Mathewson: Fertilizers were roughly \$130 million, in that order of magnitude.

Mr. Cameron (Nanaimo-Cowichan-The Islands): It was \$130 million out of the total export of \$400 million?

Mr. Mathewson: Something of that order.

Mr. Cameron (Nanaimo-Cowichan-The Islands): When we had the machinery producers before us yesterday, we were told by the witnesses—as I recall the figure—that about 60 per cent of that industry comprises wholly-owned subsidiaries of Crown corporations. Do you have any idea what the percentages are in your industry?

Dr. Jones: It is high. It is of the order of 60 per cent.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Sixty per cent, thank you.

I think my other question has been answered. I was going to ask what effect the United States tariffs, would have on your export trade after the Kennedy Round? I think you have answered that question, Mr. Mathewson.

Oh, I do have one further question

The Chairman: Yes, Mr. Cameron?

Mr. Cameron (Nanaimo-Cowichan-The Islands): We had some discussion when the other witnesses for the machinery manufacturers were before us on the question of your ability to compete with the parent corporation. Are there any inhibitions placed on you as subsidiaries of American-owned companies?

Dr. Jones: Could I give a general answer, which obviously I am only able to give as a full-time man in the association. I can draw on my personal experience when I ran a Canadian chemical company, and we were not restricted, but we did compete with our parent companies. They did not always like it, but we did. If you agree Mr. Chairman, I would like to ask Mr. Stokes who is with a prominent company and then after him, Mr. Hart who also is with a prominent company to reply to this?

Mr. Stokes: All right, Mr. Cameron. I can only speak on behalf of my own company, Monsanto. I do not know what the policies are in the other companies but in our case we have some products which we produce in Canada which are not produced elsewhere in the world by our own companies; the major ones are chrome products—chrome plastics. On those products we run our own side of the export business. There are limitations on freight. We ship limited quantities to the United States and we have also shipped to the West Indies. On like products we compete with our other companies throughout the world. We operate under the so-called international system. With the various cost factors involved, we operate through a series of agents set up by the international company. These people solicit business for Monsanto as a whole. Where the order is filled depends on various factors, such as freight, production costs, tariffs and tariff preferences in various countries, tax situations in various countries, plant capacities, our own plant capacities, product specifications—some of the companies do not make quite the same products although in general we try to standardize them—customer preferences and country of customer regulations. All this data is fed into a computer and it decides which plant will supply it.

Mr. Cameron (Nanaimo-Cowichan-The Islands): And these decisions are made by the international company?

Mr. Stokes: They are made by the international company, yes.

Mr. Cameron (Nanaimo-Cowichan-The Islands): The allocation to a plant?

Mr. Stokes: Yes.

Dr. Jones: Would you reply now, Mr. Hart?

Mr. Hart: Mr. Chairman, with regard to that question and the situation between Canadian Industries Limited and its parent in the field of chemical industries in the United Kingdom, the Canadian plants are established and located primarily to serve the Canadian market. However, on occasion—and there was such an occasion—such as the establishment of a polyethylene plant and later a polyester fibre plant, it was initially necessary to install plants with a capacity substantially greater than the Canadian requirements to find export opportunities. In such cases the parent company, with its organization throughout the

world already well established and with many banking facilities in a number of banks and distribution channels and agents practically in every commercial country throughout the world, assisted tremendously in finding markets for the surplus plant capacity in Canada. This continued until such time as the Canadian domestic market reached a level that would take up the entire Canadian production.

With regard to competition, in most cases the products of the Canadian plants are not competitive in most areas of the world, and this applies to heavy chemicals such as caustic soda, chlorine, sulphuric acid and so on to the extent that there is surplus capacity in Canada, any surplus can be sold in the United States without any qualifications, and to the extent that there is surplus capacity in Canada it can be sold in any markets that are logical to Canada, such as the Carribean area, Mexico, Central America, the northern countries of South America where there are shipping lanes and reasonably good communications—and there is a competitive advantage in supplying from Canada. I have also been directly concerned in the discussions with the parent company in the determination of export policy, and there has been no hindrance to Canadian operations in developing export markets, although the export business is relatively small compared with the total domestic business.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I do not know whether any of you are able to answer this question, but I will put it. Would an international company such as Mr. Mathewson referred to be likely to establish a plant in Canada and confine its operations to the Canadian market when, by its very nature, it would require worldwide markets?

Dr. Jones: I think, Mr. Cameron, it must depend on the economic circumstances, and I believe that we would agree that in the long run those must be the deciding factors. I think that Canada can do a lot to help itself, by increasing investment opportunities and creating a favourable economic climate. We are very delighted to have the opportunity to appear before you today to at least give you our ideas of some of the necessary elements for an economic climate that would be favourable to this industry, to the development of its healthy growth and to the employment of more Canadians.

Mr. Mathewson wished to say something, I do not know if he still does.

Mr. Mathewson: On the previous subject, Mr. Cameron, I was just going to say my company is Shawinigan Chemicals Ltd. and for some 60-odd years it was a Canadian-owned company. I believe it was the largest Canadian chemical company. We have been owned for the last three or four years by British American Oil Co. Ltd. who are controlled by Gulf Ridge Oil & Gas Ltd. There has been no change whatsoever in our policy over the years, which was always to export everything we could. And right on the point that you have raised, right now for example, we are spending some \$30 million in putting in a large ethylene plant at Montreal hoping to attract satellite plants who will serve either Canada or export. We do not care what they do with it; we just want to get them there. We are concerned about the proper climate to encourage manufacturing here, but the low rates on the products that could be made from these materials is discouraging people from putting in plants. It has nothing to do with international ownership, quite the reverse.

Mr. Cameron (Nanaimo-Cowichan-The Islands): One more question also came up yesterday. One of our witnesses was speaking of the operations of his company, which was a wholly owned subsidiary, and he suggested to us that, naturally, they could not extend their operations into a different field without consent of the parent company, if for no other reason than they would require to have capital from the parent company to embark on this expansion. I asked him at that time if Canadian subsidiaries of foreign companies finance expansion from the surplus earnings in Canada or whether as a rule they finance them by direct new investment from the parent company.

Dr. Jones: There must be many patterns. Again, I can only give you my personal experience. The company I was with until a few years ago got money wherever it could get it. We plowed back every cent of our earnings; we transmitted to the United Kingdom a very nominal sum on the preference stock every year to help placate the Bank of England. All the rest was plowed in. We borrowed in Canada and money from the parent company was plowed in too. Certainly, I think the company has built up very good assets in Canada but the money stayed here

in the form of pounds. That is my experience. I think you might comment on this, Doug.

Mr. Stokes: Throughout my experience of 15 to 20 years, Mr. Cameron, only on one occasion have we ever sent dividends back to the parent company, and that was about three years ago. On every other year we have plowed back the profits to expand our Canadian operation. Right now we are in the process of expanding in Montreal, which is partly from our own earnings, but we are also bringing in United States capital at the present time. I sincerely hope that we do not get this cut off by the Johnson decree in this area.

The Chairman: Mr. Burns, do you have any further comments?

Mr. Burns: If I might just make a very brief comment, I certainly agree with Mr. Mathewson that the levels of the United States tariff in terms of benzenoid chemicals of the kinds that he mentioned are higher and even with the 50 per cent cut will still be relatively high, but I think it might be interesting to have the members of the association comment on some of the other items in which the United States is reducing tariffs. For example, I noted that in terms of vanillin, a product of which Canada exports \$3 million, a tariff rate of something over 20 per cent is being reduced to half.

The Chairman: I note you are looking at *Foreign Trade*. What page are you on?

Mr. Burns: Page 17, Mr. Chairman. There is an item on carbon, which is being reduced from 5 per cent to free; chlorine, which I think someone mentioned earlier, is being reduced from 10½ per cent to 5 per cent; on dicyandiamide the reduction is from 10½ per cent to free; on vinyl acetate the compound rate is being reduced to half, on which we have \$3 million worth of trade; on pentaerythritol, which is a Canadian export product and a continuing export product with sales of nearly \$1 million the rate is being reduced from 10½ per cent to 5 per cent. These would seem to be in terms of a) a 50 per cent cut and b) they are of the same order of absolute magnitude as the kinds of cuts Dr. Jones mentioned earlier as applying in the Canadian tariff of an average of 20 to 15.

Dr. Jones: I would make just a general comment. What is the total dollar value of all that? I think the general consensus of our

members is that there will not be much increase. The general feeling seems to be there may be slight increases but, alternatively, the net return might be slightly increased. Would you care to comment on this?

Mr. Mathewson: I did not want to leave the impression that it was all negative; I thought I had said there were ups and downs. Carbon black going from 5 per cent to free certainly is a good move from the point of view of the carbon black producers here, and there are other items like that. But it is the unevenness of the tariff and the high rates, not only in the benzenoid field but in the other chemical field that apply so often, that give you trouble. In the case of vanillin, if I recall it correctly, I think it is worth about \$3.25 a pound and therefore the specific duty is not as damaging—I forget what the rate is, it is 2.8 plus 20 per cent or something like that—as it would be on a 10 cent item. The specific items really hurt you on the lower priced large volume items that are 10, 12 and 15 cents where two or three cents is 20 or 30 per cent. It was the unevenness of the American thing and the over-all effect that I was—not criticizing but commenting on. It is just a fact of life. They happen to have a very high tariff in many important areas. In other areas, and vinyl acetate is a good example because this happens to be a product that my own company is interested in, the Department of Trade and Commerce have done an excellent job on reducing this rate, over the time that GATT has been going on, from the original number, which I think was 6 cents per pound plus 30 per cent, down, down and down. They have done their best but even so it is still a fair rate now. All that time we have been subsidizing the American government by paying this on anything we ship down there. So although we appreciate what they have done the over-all effect is still a high tariff in the major part of the market.

The Chairman: I would like to relay a question to Dr. Annis. What happens if the U.S. Congress does not agree to the recommendations of the government and removes the American selling price? What can we do to protect our position?

Dr. Annis: The Canadian concessions, these bindings, mostly at 15 per cent, to which reference has been made, are not contingent on action by the American government on American selling price. In conducting our negotiations we made a deal which was not

contingent on that. Doing it this way involved an exercise of judgment, I suppose, but we thought that we would come out best proceeding the way we did, and my own personal assessment would be that this was a correct assessment.

The Chairman: Would we be in a position, to use the term the Minister used with regard to border duties, to take parallel action if the United States Congress does not remove the American selling price from their law?

Dr. Annis: In this connection it must be recalled that Canada is not a very important exporter of chemicals in the benzenoid group and consequently is affected to a relatively small extent by the American selling price provisions. I would not write this off as being negligible but relatively speaking it is small. So the value of the concessions which we obtained in this area is dependent only to a relatively small extent on action on American selling price. The 50 per cent cuts in the nominal tariff rates down the line were the main part of what we wanted to get in this area.

The Chairman: I presume as the method suggested by the Chemical Producers Association of adjusting our tariffs below the bound rates either up or down is implemented then it would be relatively easy to take parallel action if the United States Congress does not remove the American selling price. In other words, if we simply do not adopt a schedule of fixed rates but adopt a system similar to that of the machinery program, whereby there is flexibility under some type of administrative procedure, then it would be relatively easy for the government to make adjustments in our tariff at least below the bound levels if this undertaking of the American government is not put into effect by the Congress of the United States.

Dr. Annis: I suppose so, although once statutory rates have been introduced then it would seem to me the extent to which those will be reduced or removed on a temporary basis in respect of specific chemicals which are found to be not made or not available in Canada becomes a matter of domestic policy.

The Chairman: All I am trying to get at is whether a particular approach or method of fixing the rates initially or permitting a later adjustment would be helpful in making sure that our trading partners, through failure to do something or through other action do not put us at a disadvantage later on.

Dr. Jones: Could I just comment on that. As far as rates are concerned, as I see it, the deal has been made. Canada has agreed to certain reductions in certain bound rates to be implemented on July 1, 1968 and, as I understand it, that is immutable like the laws of the Medes and Persians. There would seem to me to be no purpose in having statutory rates that are lower than the bound rates, but what Canada can do, as I see it at this time, is to have the statutory rates the same as the bound rates and then to have flexibility by the Order in Council method if it is domestic policy to do so.

May I just make one other comment. Dr. Annis, as I see the position, I think your man went to the poker game in Geneva with the cards stacked against him. I think it was terribly unfortunate that on June 12, 1966 Canada's hand was tipped by volume I of the Tariff Board Report and I think to that extent he is to be congratulated in getting at least the plastics up to ten as a bound rate. We do not like them terribly but they are sure better than five.

Dr. Annis: It seems to me that the last point you made is an important one. The bindings in some instances involve reductions from present levels but I think, in general, the industry would agree that they are in an area that is not likely to be very damaging. To some extent also the bindings will permit increases in present rates of duty or the imposition of duties on products that are now free where these out of line and probably inappropriate for present circumstances, where there was an historical explanation for the present rates but the situation may have changed.

Mr. Wahn: May I ask the witnesses whether I am correct in assuming that these two broad classes that we are discussing, namely plastics and other chemicals, are basically not consumer items but rather are sold to other Canadian producers for further processing into, manufactured products.

Dr. Jones: Yes, that is generally true.

Mr. Wahn: In that event then the lower the cost of these items the more competitive it will make other Canadian producers who are producing products at a later stage of the manufacturing process.

Dr. Jones: As long as you have consumers to buy.

Mr. Wahn: Could the witnesses tell me approximately what percentage of the Canadian market each of these broad classifications is now being supplied by Canadian industry as distinct from imports?

Dr. Jones: As a rough figure, about 76 per cent over-all is supplied from Canadian production—importations make up the balance of 24 or 25 per cent.

Mr. Wahn: What would your exports amount to?

Dr. Jones: Exports amount to about 17 or 18 per cent.

Mr. Wahn: Would my arithmetic be right if I said that total Canadian production would perhaps amount to around 90 per cent of the total Canadian market?

Dr. Jones: Approximately, there is a deficit balance of about \$200 million a year, which would be about 10 per cent.

Mr. Wahn: About 10 per cent. Has that changed very much in recent years?

Dr. Jones: I think it is increasing somewhat in percentage but it is obviously increasing in absolute terms.

Mr. MacPherson, would you have figures for that?

Mr. MacPherson (Canadian Chemical Producers' Association): Yes, I think I have them here somewhere. I think our balance of payments is deteriorating very seriously. The long-term trend of imports, at an average annual rate of growth, has been increasing historically at about 7 per cent. In 1966 and 1967 imports increased by 31 per cent. Concerning exports, the average rate of growth historically was about 7 per cent. In 1966 and 1967, the increase in our exports, including fertilizer, was 4.7 per cent; excluding fertilizer, it was 0.5 per cent, and our balance of payments is deteriorating very, very seriously. Our balance of trade for 1967, including fertilizer, was over \$200 million; excluding fertilizer, it was \$350 million, but there has been a very noticeable and dramatic change since 1964

Mr. Wahn: I have a final question, Mr. Chairman. Would the price in Canada tend to be the United States laid down price including the duty? In other words, is your pricing, by coincidence or otherwise, essentially the United States price plus the duty?

Dr. Jones: No. It is difficult for me, in an association, to know exactly what people do. I can give you my own experience, what I did, and we did not by any means use the whole Canadian tariff. We needed it to enable us to get a substantial volume of the business, but the price certainly was not United States plus duty, plus freight; substantially less delivered to the Canadian consumer. Would anyone else like to comment on that?

Mr. MacPherson: DuPont of Canada—and probably it is not right to mention a company—when we made our appearance before the Tariff Board, and that was 1960 to 1962 and before our cost position; relative to the United States deteriorated so badly at that time by a product count the great majority of our prices were at an American level. By a rate of average, that proportion was reduced somewhat but I would say, with the exception of certain nylon products, the great majority of our prices were at the United States level and for a very good reason.

We were out to make money by capturing the largest share of the Canadian market, and to do that we had to compete not only with other chemicals but with other products. In the case of polyethelene, we compete with other films. In the case of nylon, we compete with polyester, with rayon and what have you.

So many people in Canada make the assumption, when they are talking about tariffs, that Canadian producers take more or less all the market will bear as far as price is concerned. This is not the truth, and there is a volume of evidence in the records of the Tariff Board to support this statement.

Mr. Gilbert: Mr. Chairman; I would like to ask the witness, in view of the answers that you gave to Mr. Cameron with regard to American and other foreign-owned subsidiaries directing their attention to supplying the Canadian market and secondly, that an international corporation determines certain export policies, does that mean that any substantial increase in Canadian exports must fall on Canadian-owned companies?

Dr. Jones: No, I believe the evidence is that the foreign-owned ones are excellent exporters. I do not think there is any evidence at all for that.

Mr. Gilbert: I thought the witness said that any foreign-owned subsidiaries in Canada directed their attention to supplying the

Canadian market—that is, their first approach—and second that an international corporation directs certain export policies with regard to exports.

Mr. MacPherson: Mr. Chairman, may I speak about this? I have said nothing about this as my colleagues talked, but I do not think this is a uniform policy by any means. I think survival of an international company depends upon being a good corporate citizen.

My company exports to 51 countries throughout the world when we get the opportunity. But to export our prices must be competitive with the prices of our American parent company, and, incidentally, because of the Kennedy Round we are going to lose very substantially in the U.K. market.

Our British preference there has been cut by 50 per cent, or presumably it will be if ASP is adopted and these tariffs are reduced, and therefore this is going to give other companies a major entry. In other words, they are going to become much more competitive with us in this U.K. market, and we have met the exports of our parent company in this U.K. market. I think when the Kennedy Round is fully implemented our position is going to deteriorate.

Mr. Stokes: I think perhaps you got the impression that our exports are entirely directed from the American company. This is not quite so. I labelled a number of factors here which are involved in this. There certainly are production costs, freight, tariffs and tariff preferences. For instance, our company has a definite advantage over our American company in shipping to the Commonwealth, and the bulk of our exports have been to the Commonwealth. So really what dictates our exports is the total cost plus all these other factors.

Mr. Gilbert: I think you told Mr. Cameron that 60 per cent of the chemical producers are foreign-owned, or were you just referring to American-owned? Does that include the English?

Dr. Jones: Yes, the British, German and Belgian-owned companies in Canada and it does appear to me that any industry that is exporting \$400 million worth is not doing so badly. From my own personal knowledge, I found no restrictions, and so far as I can see from my position looking at the industry, there is a very healthy endeavour to export.

Mr. Gilbert: The question that leads in from that is if our exports are \$400 million, what part of that \$400 million is exported by Canadian-owned companies?

Dr. Jones: I will take notice of that question. I think I could guess and probably be right, but I will certainly see you get the answer; I will have to look it up.

Mr. Gilbert: I think it is rather important that we get the answer to that question.

The Chairman: I think the Committee will agree it is a very important question, particularly in the light of what the machinery industry was telling us the other day, and if our principal witness, Dr. Jones, would rather not guess at an answer at this time, perhaps we could review some of the material available through his Association that would give us some approximation.

Dr. Jones: I would much prefer to give you a researched answer. I think a guess could be right or wrong and probably of no real use to you. I think we will have a look at this to see what we can find.

The Chairman: If you could provide it in written form it can be circulated and printed in our Proceedings.

Dr. Jones: Yes, Mr. Chairman. We certainly shall.

Mr. MacPherson: Mr. Chairman, could I say one more word? I think if this Kennedy Round is adopted and tariffs are reduced and there is pretty liberal anti-dumping, the rules of the game are going to change. We may be trying to look upon this more and more as a North American market, and we will locate our plant where it is most advantageous in relation to market and raw materials, and I suspect that is going to be more and more in the U.S.

Mr. Gilbert: Those are all the questions I had. There was some reference to administrative costs. How do production costs in the Canadian chemical industry compare with other companies? Have you any idea of that?

Dr. Jones: I am not really ducking your question, Mr. Cameron, but this is a matter that now is the subject of the very considerable study that I mentioned to you, in conjunction with the Chemicals Branch of the Department of Industry and this is being done so thoroughly and in such depth that I believe you would get a much better answer

if you compared costs in Canada with those of the EEC, the United States and possibly Japan. It is a very complex matter to compare one country with another. When I was with my former company I often tried to compare our costs with those of the UK, the United States, Canada, India, South Africa and Australia, and even though you are in the business it is very difficult to do so. I will give you that sort of partial answer. I am hopeful that by the end of the year we will know much better and will really have some information to give you on this.

The Chairman: Perhaps I could ask one of you gentlemen to comment about North American markets. If the development is in that direction and situation you allude to comes to pass would there be any valid reason for a firm to decide to locate a new plant in, say, Detroit rather than in Windsor, or in Port Huron rather than in Sarnia?

Mr. MacPherson: Mr. Gray, as you know, governments are playing an increasing part and exercising an increasing influence over plant location and exports. The governments of most countries in the world are very interested in exporting, so that one of the questions is how does the relative strength of Ottawa and Washington compare.

I would make another suggestion...

The Chairman: Are you suggesting that your parent companies are more interested in the directive even though it may be by way of the moral suasion of, say, Washington rather than the economic realities?

Mr. MacPherson: I am saying this—and I was coming to the economic realities—that governments have policies on wages, salaries, tariffs and taxation all of which exercise an influence on plant location.

Given a very low level of tariffs, government policy will have quite an important effect on plant location. Give us a corporate tax rate of 25 per cent in Canada and I can tell you it would have quite an important effect on where plants would be. Because despite the intention to be a good corporate citizen competitive factors have to be taken into account. They are the realities of the market place.

The Chairman: From reading the newspapers nowadays it seems that there are other realities—the realities of capitals and governments too.

Mr. MacPherson: You are in a much better position than I to appraise these.

Mr. Clermont: One of the witnesses said that this company was expanding its operation in Montreal and that the cost of this expansion would be met by the capital of the Canadian company and new capital from the United States parent company, and he hoped that the investment policy of President Johnson would not stop that inflow. According to you gentlemen will that new policy cut for, say, a year or two some of the expansion that you had in mind?

Mr. Stokes: I do not think so, Mr. Clermont. We will find the capital somewhere, I am sure.

Dr. Jones: Mr. Clermont, there is no evidence at all, that I know of, that the inflow of capital is being restricted. There are other factors, such as the general economic climate that we create in Canada, which things are important. I think that we can, if you like, persuade capital to flow in or not really by our own posture. That, I think, is what Mr. MacPherson was really getting at—that it really is up to us.

The Chairman: Before we adjourn I think Dr. McLean would like to pose a question.

Mr. McLean (Charlotte): Yes. One of the representatives spoke about the realities of the market place and he believes in the realities of the market place. Now there are \$700 million dollars worth of gold used in the markets of the industry and the arts and Washington says that that gold must remain at \$35 per ounce, although it was in 1934 that the price was set. They do not believe in the realities of the market place, do they?

The Chairman: I suppose gold is technically a chemical...

Mr. McLean (Charlotte): *(Inaudible)*... realities of the market place.

Dr. Jones: It certainly is a chemical, Mr. Chairman, but none of ours... *(Inaudible)*

The Chairman: I suggest that we adjourn until 3.30 this afternoon.

AFTERNOON SITTING

• 1546

The Chairman: Gentlemen, I think we are in a position to begin our meeting. It will be

unofficial in status for the moment. Our witnesses this afternoon represent the salt industry and on my right is Mr. James Rowland, Vice-President, Marketing, the Canadian Salt Company Limited. To his right is Mr. A. D. Huffman, Marketing Manager, Domtar Chemicals Limited, Sifto Salt Division—and we are not charging anything extra for these slight commercials.

In any event, gentlemen, I would ask you to present your brief in summary fashion and then we will move to discussion. I believe, Mr. Huffman, you were going to make the introductory remarks on your own behalf and that of your colleagues.

Mr. A. D. Huffman, Marketing Manager (Domtar Chemicals Limited, Sifto Salt Division): Thank you, Mr. Chairman. Do you want to speak first, Mr. Rowland?

Mr. James H. Rowland, Vice-President, Marketing, (The Canadian Salt Company Limited): Mr. Chairman and gentlemen, we of the salt industry consider it a privilege to be able to appear this afternoon to air certain viewpoints we hold on the tariff situation and the suggested tariff changes coming up during the present year.

I now ask Mr. Huffman to summarize briefly what we have in mind, and give you some background of the salt industry in Canada.

Mr. Huffman: Thank you. Mr. Chairman and gentlemen, the Kennedy Round proposes that all our salt imports be free except for packaged goods. However, the United States will have tariffs on bulk salt and brine. Now, I would like to make the point that there is practically no trade in packaged salt across these borders. It is a negligible factor.

Under the present tariff arrangements we have protection. The Americans are obtaining a larger share of our market each year, while we have a static position. This is a percentage share. What we would like to have is equal tariffs however these are obtained. Practically all the trade between the U.S.A. and Canada is in bulk salt and brine, as I said before.

Now, the largest markets in this type of salt in North America are on each side of the Great Lakes, and it so happens that underneath the Great Lakes is one of the largest salt deposits in the world—the Michigan Basin. On each side of the Great Lakes, you have mines and, if you have any protection on one side or the other, the mines will be built on whichever side has the protection,

because they can enjoy that market and then ship free with cheap water transportation across the lake into the other market.

It is our belief that although this tariff that the Americans want to hold of .8 cents per hundred is small, it will be enough to entice future builders of mines and also brining operators to think very hard about building on the American side rather than on the Canadian side. On top of this it will, of course, hinder us and will subtract from our profits.

I would like to point out that since 1959 there have been four mines built in this area; two on the Canadian side and two on the American side. These mines represent considerable investments. A salt mine today will run to about a \$15 million investment. Thus, if Canada wants a share of the expansion in this basic industry, its salt tariffs should at least be equal some way or other—somehow—with those of the United States. That is our summary.

The Chairman: Thank you, gentlemen. Now, before opening the meeting to the exchange of questions and discussion between you and members of the Committee, I will ask Dr. Annis whether he has any comments on the summary presented by the witness. They have distributed to the Committee in support of their views, the brief they actually submitted to you, sir, in your capacity as Director of Tariffs, commenting in greater detail with respect to their views, both on the Kennedy Round Tariff negotiations and Tariff Board Reference 120 about which we heard something this morning.

• 1550

Dr. Annis: Mr. Chairman, the only comment I want to make now—although it may be that Mr. Burns would like to enlarge upon it—is that in terms of present trade flows, exports of salt to the United States are much greater than are our imports, not only from the United States, but from the world as a whole.

In the light of that and the inferences one might draw from it, I submit that until demonstrated to the contrary, at least, an exchange in which the United States cut all of their duties by at least 50 per cent and went to free on one item is a pretty good bargain from our point of view in a situation where we made a 50 per cent cut in what I had thought would be regarded as the most sensitive item, the packaged table salt, and

went to free on the other items in respect of which rates by and large are really very modest already, and under which the volume of imports, even at those modest rates, is not very great.

The only additional point I would add is that salt, of course, is a pretty basic raw material for some secondary operations, and also is of interest as a cost factor to provincial highway departments, and so on, so that from the point of view of the consumer, whether salt is for direct use in a highway program, for agricultural or fisheries purposes, the minimum rates have some very substantial attractions. I do not know whether or not you want to go into the statistics on exports.

Mr. Burns: Mr. Chairman, just for the sake of the record I might mention that in 1966 the United States imports from Canada under the three salt items, on two of which the United States are making 50 per cent cuts and the other going to free, amounted to \$3.4 million. In the same year our imports of salt of all categories from the United States was \$1.3 million and my rapid calculation indicates that our exports, therefore, were 2.6 times our imports to the United States.

The Chairman: Mr. Drahotsky, do you have any comments?

Mr. Drahotsky: I have no comments, Mr. Chairman.

The Chairman: Unless our witnesses wish to make some immediate comment in reply, we will pass to questions.

Mr. Huffman: I would like to make a comment. Concerning imports versus exports, I think it is important to look at what is happening and not what is sitting here today, the status quo, or what we see today. In 1960 the apparent consumption of salt in Canada was 1,513,000 tons, and imports from the United States were 51,480 tons, representing 3.4 per cent of the Canadian apparent consumption.

Imports from countries other than the United States were 140,000 tons approximately, representing 9.3 per cent. In 1960 Canadians supplied 87.3 per cent of the apparent consumption. In 1966, the apparent consumption had risen to 2,640,000 tons with Americans supplying 174,000 or 6.6 per cent of the market; imports from other than the United States were 335,000 tons, which is 12.6 per cent of the market; and Canadians had slipped—they supplied 2,131,000 tons of their

market, which was 80.8 per cent, which meant that they had shipped approximately 7 per cent in their own market.

In 1960 the approximate market for dry salt as closely as we can figure it was 11.5 million tons and Canadians supplied 450,000 tons, which is 4 per cent. In 1966 the American dry salt market was 16 million tons and Canadians supplied 633,000 tons or again, about 4 per cent, so we are just holding even while they are gaining practically double their percentage. We have to look at the rate of growth to determine what is happening—the rate of growth of consumption, and the rate of growth of imports and exports.

The Chairman: We will now take questions from members of the Committee and other members of the House in attendance.

I see a few members of the Committee have raised their hands immediately, but I also see that Mr. McKinley indicates some interest in the subject matter, so with the concurrence of my colleagues I will recognize him first.

You may direct your questions to either the witnesses or the officials or to both.

Mr. McKinley: Thank you, Mr. Chairman. I would like to ask a question of either Mr. Burns or Dr. Annis. They have explained that we are in a good position so far as exports and imports of salt are concerned, particularly bulk salt, and I would like to know the reason for the agreement to leave some tariff on salt going into the United States when it is anticipated that our Canadian tariff will be removed. Do they not believe that it is a good thing for us to have more exports than imports of salt?

Mr. Burns: Mr. Chairman, of course we would have welcomed very much the opportunity to have had the Americans go further in these products. The American negotiators were, however, restricted by the terms of the Trade Expansion Act, which is the legislative authority under which they operated, to make the 50 per cent cuts, except in those cases where the tariff was 5 per cent or less, and in the cases in which they have only gone 50 per cent, those tariffs—one is a 10 per cent, the other one is a specific rate—were calculated as an *ad valorem* rate, it was higher than 5 per cent, so that they were unable legally to move to free. This is really the only reason

why we would not have pressed them to move to free entry.

Mr. McKinley: It seems to me that leaving Canadian salt to face that .8 cent per hundred-weight tariff is more than doubly difficult when previous to this we had the protection of 3 cents a hundredweight. That is going to be removed to free. I would like to know the basis for this; or did you not know that this 50 per cent cut in American tariffs was going to be in force or put into practice before these negotiations?

Dr. Annis: We were aware of the limitations on the American negotiating authority prior to the commencement of the negotiations. They follow from the terms of the Trade Expansion Act to which Mr. Burns has already referred. The only point I might add in this connection is that in the case of salt in bulk, our exports to the United States in 1966 were a little more than \$3 million in value over a tariff of 1.7 cents per hundred pounds, and recognizing the very large size of the American market as a whole, it seemed fair to draw the inference that a 50 per cent cut in the rate would create at least the potential of a very large expansion of sales there.

Our share of that market is very small now. Increasing that share to even 5 per cent of the market would mean a tremendous thing for Canadian producers. It may be that even such a percentage of that is not realistic in the sense of not within the nearby capabilities, but over a long term, I suggest that we might at least have hoped for really important opportunities and possibilities there.

Mr. McKinley: I would agree with that completely if our Canadian tariffs on American imports had been reduced 50 per cent, too. Would this not have been a logical deal to make? What would still have left us with 1½ cents against their 8 cents, similar to what it has been. Was that not considered?

Dr. Annis: Various possibilities were considered and discussed. What evolved was what proved to be negotiable.

Mr. McKinley: In other words, they would not accept anything less than our tariffs being completely removed with 50 per cent of their tariffs?

Dr. Annis: It seems to me that that question is not capable of a precise answer.

Mr. McKinley: We will leave it.

Dr. Annis: One cannot be sure what would have evolved, one what would have been possible, or even the point at which negotiations would have broken down, if one had dug in one's heels at a different point. I do not think I can go beyond that.

Mr. McKinley: We will leave it there. I have made my point clear.

Are these arrangements firm, or are they flexible? Is there any possibility of changing this tariff arrangement between now and 1972 to what would be a fairer arrangement for Canadian-built companies?

Dr. Annis: The Kennedy Round agreements have been signed. They were signed on behalf of Canada by Mr. Pearce, the head of the Canadian negotiating team. They are firm agreements and were made as a package.

When an agreement is made there are two possible ways out. One is to renegotiate a commitment. This involves certain procedures which are defined in the GATT. You would invoke what is called the special circumstances clause, apply to the contracting parties for permission to renegotiate a certain commitment and, after that had been received, would approach the other contracting party and say: "I want to be relieved of this obligation. I am prepared to pay for being relieved. Here is the compensation we are prepared to offer." Then you would negotiate on it. If you can make a deal one obligation is terminated and another is substituted.

A second, and different, avenue is the so-called escape clause in Article 19 of the agreement, which provides that in the case of a large increase in imports causing serious injury emergency action, contrary to the provisions of its commitments, may be taken by a country. If such action is taken it is open to the other contracting party to make compensatory withdrawal—in effect, to retaliate. Those avenues are open.

Mr. McKinley: In the case of the increased importation of salt into this country, particularly of bulk salt, probably because of the change in these tariff arrangements, how large would that have to be to cause action to be taken?

Dr. Annis: This is under Article 19, the emergency action? There is no precise definition of that. It would have to be sufficiently large that the Canadian government would be prepared to give instructions to its representatives to try to make a case. It would then

be up to them to try to do that. It is not possible, in advance to say what would, or would not, be accepted as an adequate reason. Certainly it would not be proper to attempt to use that avenue in circumstances that did not meet the tests that are set down.

Mr. McKinley: Under the conditions in this Article would we have to be prepared to offer concessions in some other products?

Dr. Annis: We would be expected to offer concessions as an alternative. If we did not offer and grant satisfactory alternative concessions we would have to be prepared to accept the consequences, which might be withdrawals on the part of our trading partners.

Mr. McKinley: I have one further question, Mr. Chairman. I direct it at either Mr. Huffman or Mr. Rowland. What percentage of our total exports to the United States is bulk salt?

The Chairman: To the world, or to the United States?

Mr. McKinley: To the United States?

The Chairman: I see a figure in *Foreign Trade* at page 17. I do not know whether or not you would agree with the figure given for United States imports from Canada for 1966, in United States dollars, because you may have other figures. It seems to be \$3,095,000. Perhaps your figures are different.

Are there more up-to-date figures, Mr. Burns?

Mr. Burns: These are special figures that are prepared by the United States in relation to individual tariff items. These are not the regular imports from the United States. I do not have any 1967 figures with me. These are in United States dollars and are American import figures.

The Chairman: Relative to United States tariff items.

Mr. Burns: While we are talking about statistics, Mr. Chairman, perhaps I can refer to a little table I have made based on Mr. Huffman's figures. This shows—and I hope I will be corrected if I am wrong—that in 1960—our exports were 450,000 tons to the United States and our imports from the United States were 51,000 tons, leaving a balance of 400,000 tons in our favour in 1960.

In 1966 our exports were 633,000 tons and our imports from the United States were 174,000 tons, leaving a balance of 459,000 tons in our favour. This suggests a favourable balance with the United States changing over that six year period in our favour to the tune of 60,000 tons.

This is not to dispute at all the question of relative rates, but if those figures are right it suggests that in absolute terms we have improved our position over a period of six years vis-à-vis the United States.

The Chairman: Do you gentlemen have some further information?

Mr. Rowland: Mr. McKinley asked what percentage of the flow to the United States was represented by bulk salt. Almost the total flow would be bulk salt, notwithstanding a certain percentage of brine, which I do not have. Mr. Huffman, do you have this information?

Mr. Huffman: Yes, I do.

Mr. Rowland: But bulk salt is by far the big item of trade.

The Chairman: Have members any other questions at this point?

Mr. Irvine?

Mr. Irvine: Mr. Chairman, I will direct my question to either Mr. Huffman or Mr. Rowland. What is the total production of bulk salt in Canada?

Mr. Huffman: All dry salt is first produced as bulk. Do you mean in that form, or as it is sold in bulk?

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Mr. Irvine: As it is billed from your mine or plant?

Mr. Huffman: Do you mean sold as bulk salt?

Mr. Irvine: Yes, sold as bulk salt.

Mr. Huffman: I can give you an approximation of that.

Mr. Irvine: Just a close figure.

Mr. Huffman: If you refer to the appendix, you will notice the percentages of salt used and you will see that the chemical industry uses 30.5 per cent. This is page 4, table I, appendix I. The chemical industry uses 30.5 per cent, highway ice control 44.5 per cent, so

that is about 75 per cent, and of the others possibly another 5 per cent is in bulk salt, so I would say somewhere between 75 and 80 per cent of the salt shipped is dry salt and the shipments in 1966 were 2,760,000 tons.

Mr. Irvine: Roughly 2 million tons, then.

Mr. Huffman: Roughly 2 million tons, and all the imports, you might say, are bulk salt. There are 633,000 tons of imports coming in. I can work that out for you.

Mr. Irvine: No, it is not necessary. I would like to know what would be the average dollar value of a ton of bulk salt from a billing standpoint, if it is possible to arrive at it that way.

Mr. Huffman: From what standpoint?

Mr. Irvine: From a billing standpoint; from the mill or your factory.

Mr. Huffman: I can give you our plant prices from our different locations. In the Maritimes, bulk salt is about \$12.80.

Mr. Irvine: A ton?

Mr. Huffman: A ton. This is an evaporated type of salt. Rock salt around \$9.40 a ton and in the West it is about \$14.80.

Mr. Irvine: It would average roughly \$11 or \$11.50 a ton, then?

Mr. Huffman: Yes. I worked it out just taking the DBS figures and I think it came out to around \$8 a ton.

Mr. Irvine: Eight dollars a ton.

Mr. Huffman: This is because some large contractual amounts of salt are sold.

Mr. Irvine: The thing I am trying to arrive at is that \$60 per ton, according to the old tariffs, was a fairly good protection then, was it not?

Mr. Rowland: That is 60 cents, Mr. Irvine.

Mr. Irvine: Sixty cents, yes. Did I say \$60? Sixty cents a ton would represent a fair portion of what might be considered—I do not want you to reveal this—the net profit from the mine, would it not?

Mr. Huffman: An appreciable part of the profit, yes.

Mr. Irvine: In other words, the removal of that places the salt industry in a very embarrassing position so far as profit is concerned.

Mr. Huffman: Yes; it is a part of the profit.

Mr. Irvine: The thing I am thinking about—and I would like to ask Dr. Annis this question if I might—is that these, of course, were give and take negotiations where we had to give in one quarter and we received in another quarter, and it has been indicated here several times that in the overall picture we have done fairly well, but I am just wondering whether it is not the case that the salt industry, being small in terms of actual dollars, might not perhaps have been unwittingly sacrificed in order to gain somewhere else. Would you like to comment on that, Dr. Annis?

• 1615

Dr. Annis: You used the term “unwittingly”.

Mr. Irvine: I mean, unintentionally.

Dr. Annis: I found that word really helpful in the sense that certainly it was not deliberately sacrificed. If it was sacrificed at all, it results from errors of judgment on our part. I would want to argue that it has not been established that it has been sacrificed, but if it should be established that this industry has been sacrificed, certainly that would represent errors of judgment on the part of the Canadian negotiators. It was not their intention, nor were there instructions, to sacrifice this industry or any other industry.

Mr. Irvine: Of this I am sure. Mr. Chairman, I would like to ask, if I may, either Mr. Huffman or Mr. Rowland, whether it is their feeling that perhaps, in a way, the salt industry has been placed on this sacrificial alter?

Mr. Rowland: I would not say that entirely. I do not think we are entirely sacrificed. I think we are placed in an embarrassing position for future trade. I think we are placed in an embarrassing position for the development of the industry in Canada rather than probably establishing new mines and plants just across the border operating into Canada and, in consequence, the royalties that are paid on mining to the Canadian government and the provincial governments will suffer as a result.

Mr. Irvine: Thank you, Mr. Chairman.

The Chairman: Are there any further questions from the Committee?

Mr. More (Regina City): I would like to ask Mr. Huffman whether, within the period of negotiations under the Kennedy Round, your industry was invited to make any representations or consulted?

Mr. Huffman: Yes.

Mr. More (Regina City): You were consulted?

Mr. Huffman: Yes, and we submitted a brief.

Mr. More (Regina City): You put in a brief before the final conclusions were reached. Is the lack of increase in your percentage of the American market due to tariffs or to other factors such as railway costs, and so on?

Mr. Huffman: I think what we are doing here is comparing. We have been trying as hard as we can to get into the American market. It is comparing our lack of success to the success the Americans have had. They have just been able to get into our market better than we have been able to get into theirs. They have set up distributors in the Montreal and Toronto areas and have been quite successful in selling their salt. Does that answer your question?

Mr. More (Regina City): Not exactly. Is Montreal a region in which the freight rates enable them to compete more than the matter of tariffs?

Mr. Huffman: When you are talking about bulk salt, you pretty well have to be on deep water to compete. If you look at all these mines, you will notice they are on the Great Lakes. This is a point I brought out earlier; in these areas the Americans can load their ships in the Detroit and Cleveland areas and bring them in with freight rates that are quite low and dump off with self-unloaders, so that they can compete very well and the Canadian markets, as pointed out here, are very narrow. They can penetrate these lush Canadian markets and saturate them—not saturate them, they are a long way from saturating them, but do a good business—far easier than we can. We have to get through a lot of geography before we can really start to enjoy their market.

Mr. Rowland: I might add there are other factors in penetration of the United States market. As we all know, it is a considerably different market from the Canadian market because there are trade groups, and so on, that put up a bit of resistance to penetration.

Mr. Huffman: Yes, that is true. The Americans are much more nationalistic than we are. Quite often an American will tell you that he will not buy your salt at any price.

• 1620

Mr. Rowland: I might say that the State of New York, for example, has a specifications ruling that they cannot accept foreign salt, and Canadian salt is a foreign salt.

Mr. More (Regina City): What is a non-tariff impediment?

Mr. Rowland: In that particular area, that is so.

The Chairman: Do any other members have questions at this point.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Mr. Chairman, regarding what was said a little while ago about invoking Article 19, how would the rise in importation be calculated? Would it be on the basis of its proportion of existing imports or would it be on the basis of the proportion of the total Canadian market consumption?

Dr. Annis: That is not defined in the Article of the Agreement concerned. It seems to me that the basic point and the important point is that the country which proposes to make out a case is under an obligation to make it out in such a way that it will convince its trading partners, and it seems to me it is open to one to argue the case—however one likes. It is also open to those who you are trying to convince to say they are not prepared to accept the type of argument you are putting up to test the soundness.

Mr. Cameron (Nanaimo-Cowichan-The Islands): It seems to me that the important consideration would be whether it altered the balance to an unusual degree in the Canadian market between imported and domestically-produced goods, because you might have an increase in production and an increase in consumption in Canada which would not alter that particular dumping zone.

The Chairman: While Dr. Annis is thinking about that I would like to note for the record

that we have been proceeding officially for a number of minutes now. Dr. Annis, have you prepared an answer yet to Mr. Clermont's question?

Dr. Annis: Since the point has come up it may be worthwhile reading the relevant section of the GATT agreement. Section (1) of Article 19, which is headed "Emergency Action on Imports of Particular Products" reads as follows:

If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this agreement, including tariff concessions, any product that is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like to directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

Then the Article continues and specifies the rights that other contracting parties have if this section is invoked.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Thank you.

Mr. More (Regina City): I have a supplementary question. Dr. Annis, as I understand it, the American tariff is now at 1.7?

Dr. Annis: Yes.

Mr. More (Regina City): And it becomes .8?

Dr. Annis: Yes.

Mr. More (Regina City): Is this in one stage?

Dr. Annis: No, sir, it will be staged. The same is true of the concessions on our side. They are being staged also. In respect of one of the items where there is at present a 3½ cent rate, the staging is not quite uniform.

Mr. More (Regina City): Do the witnesses, in fact, mean that they do not think there is an opportunity for them to expand their total tonnage operations under the Kennedy Round proposals, where these reductions were staged over five years when an American

industry in the United States loses over that period half of their present protection, which is more than double what you lose on the Canadian market? You are losing three cents and they are losing eight cents.

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Mr. Rowland: Point eight.

Mr. More (Regina City): Is it not three cents against eight cents?

Dr. Annis: A U.S. rate of one point seven goes to point eight.

Mr. Rowland: Actually it is point 9.

Mr. More (Regina City): Then the effect on you is greater. I was under the false impression it was less. Do you not anticipate you will have an opportunity to increase your total tonnage?

Mr. Rowland: This is total tonnage of exports to the U.S. market. The point I was attempting to make previously is that in exporting to the U.S.A. tariff is certainly a major factor. There are other factors such as prohibitions and so on that you have to war against and, in consequence, the reduction of tariffs on goods entering the United States, accompanied by other kinds of difficulties makes it much more difficult for a Canadian producer to operate into the U.S.A. than a U.S.A. producer to operate into Canada.

Mr. More (Regina City): The real factors are the non-tariff barriers that are employed against imports in the American market?

Mr. Rowland: Well, they are a factor, certainly.

Mr. More (Regina City): Is the two-way development of trade not on a regional economic basis? I was wondering if the increase of the American penetration into Canada was because of certain regions?

Mr. Huffman: Yes, I was trying to say that earlier. I think that the Canadian markets in that regard are quite narrow; they border on the Great Lakes and are much more accessible to bulk salt coming in by boat than is the American market. I am now referring to percentages because there is a large American market bordering on the Great Lakes too. There is also a very deep American market below the Great Lakes that we have a tough time reaching.

Mr. More (Regina City): So the percentage of the American market that you can penetrate is reduced whereas they more or less have a greater percentage of the Canadian market open to the American companies?

Mr. Rowland: Yes, and because of this we do feel we need tariff protection.

Mr. More (Regina City): What about the West coast salt industry?

Mr. Huffman: That is another thing. Most of the salt going to the west coast goes to caustic chlorine and sodium chlorate people who are supplying the pulp and paper industry. It comes up by barge mostly from Mexico now; some of it is coming from the Caribbean and some was coming from San Francisco. It is a very cheap solar salt, and we made this point in our brief. Because of freight rates our evaporator plants in the Prairies are pretty well locked out of British Columbia.

Mr. More (Regina City): As a captive shipper you cannot reduce your costs by agreement with the railroads?

Mr. Huffman: No. We can put in specialty salts but they cannot supply solar. Our company, Domtar, now has a Vancouver salt company which was formerly a subsidiary of Leslie Salt which we purchased just last spring. We buy this solar salt.

Mr. More: In your original question, were you asking if we would have the opportunity to expand our markets in the United States, or to expand our production facilities?

Mr. More (Regina City): Your markets; that is, your total production tonnage here and the opportunities this may present in the American market. I take it you are not very optimistic?

Mr. Huffman: We will expand it; but as it is shown here we will be taking only a small percentage of an expanding market.

Mr. More (Regina City): It could mean many tons, though.

Mr. Huffman: Yes; I think we could sell tons of it.

Mr. More (Regina City): Therefore, the whole effect on the production facilities in Canada might well be an increase rather than a reduction in operation?

Mr. Huffman: I think that is fair, speaking of present facilities. But that is why I asked

you the question about production facilities. If we continue to ship out of our present facilities, or if we are able to expand them at minimum cost, we will expand our tonnage and ship out of those facilities. However, if we do not have any protection and run out of mine capacity—say, around 2 million tons a mine per year, or perhaps a little more—then we would naturally look at the United States. We could cross the border very easily. There is salt over there, and a big market. If we can sit there and ship back into Canada for nothing we are in a better situation.

Mr. More (Regina City): This is a prospect?

Mr. Huffman: When we pass the potential of expanding our present production facilities we will have to think long and hard about it.

Mr. More (Regina City): But for the present and for at least say, a five-year period of transition of these tariffs, you do not predict that they will cause any decrease in your staff or in your operation. In fact, they might improve the situation?

Mr. Huffman: We are in an expanding market, as you can see by these figures. Therefore, although we are taking a smaller piece of it we will still expand in tonnage. I think we will be all right.

The Chairman: Have the members of the Committee any further questions? Mr. Clermont?

Mr. Clermont: Mr. Chairman, I note that salt for the ice-control of highways, roads and streets plays a very important part in your sales. According to your Table No. 1 it represents 44.5 per cent of your Canadian sales. Are you shipping any salt for that purpose into the United States?

Mr. Rowland: Yes, we are, Mr. Clermont.

Mr. Clermont: What percentage does that represent? What is the quantity?

Mr. Rowland: It can be calculated.

Mr. Clermont: No, no; do you have any rough figures available?

Mr. Huffman: Almost all of the salt going to the United States would be for ice-control.

Mr. Clermont: Therefore, you are not making any sales to the United States' consumer market?

Mr. Rowland: Not for household or consumer use, no.

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Mr. Clermont: But the American producers are exporting their salt for Canadian consumption?

Mr. Rowland: Not for consumer use, no. We raised this point earlier in our exchanges. Consumer salt is not really a question here. We are referring to the great bulk tonnages that pass across the border.

Mr. Clermont: But in your brief, at the bottom of page 5, you say:

Salt is a relatively low cost commodity, and in many instances, shipping costs account for a major share of customer expense.

Even if our tariff on American salt was lower do you not agree that cost of transportation would prevent an increase in their sales in Canada?

• 1635

Mr. Rowland: This is a general statement in the brief. They export generally to Canada by boat on the Great Lakes and they enjoy probably the same boat rates as do the Canadian producers. Therefore, the cost of transportation would be relatively the same.

Mr. Clermont: I suppose this is why importation covers 93 per cent of the sales to the consumer market in British Columbia?

Mr. Rowland: The British Columbia market has a big chloroalkali industry, a chemical industry that utilizes salt.

Mr. Clermont: And when you refer to "shipments" am I to understand that that is tons produced? In your brief, at the bottom of page 1, you refer to 4,491,000 tons of shipments. By that do you mean production, or sales?

Mr. Rowland: We are just checking this, Mr. Clermont to see if it agrees. Yes, that is total shipments.

Mr. Clermont: And for my personal information, when you say that your companies are paying royalties to the federal government...

Mr. Rowland: Mr. Huffman has some information on royalties.

Mr. Clermont: At page 2, in the third paragraph, you say

Federal and Provincial Governments benefit from the salt industry by the collection of royalties.

My question is relative only to the federal end of it.

Mr. Huffman: We are not too sure on this. It was the impression of the people who wrote the brief that we were paying federal royalties at Goderich, Ontario. However, when we checked we noticed that we were paying under two Ontario leases. These are under the lake and are federal ore deposits. They are controlled by the federal government. There must be some agreement by which we are paying to Ontario.

Mr. More (Regina City): One supplementary, Mr. Chairman. Royalties are paid on your production no matter where it is shipped, are they not?

Mr. Huffman: Yes.

The Chairman: You do not get any rebate on export, or anything like that?

Mr. Huffman: To try to answer your question a little more specifically at this moment, it would appear to me that all our royalties are going to provincial government.

Mr. Clermont: This is my last question, Mr. Chairman. In the brief it is stated that two companies operate seven evaporator plants and three rock salt mines. Do both companies have Canadian investment, or is some percentage of the capital owned by foreign companies?

Mr. Rowland: The two companies represented here are Domtar Chemicals Limited, which is 100 per cent Canadian, and Canadian Salt Company Limited in which the controlling interest is held by Morton International of the United States, but it is not a wholly-owned company.

Mr. Clermont: Thank you, Mr. Chairman.

Mr. More (Regina City): Mr. Chairman, I wish to ask a supplementary question in view of the last answer I received. Where provincial governments are concerned with revenue I suppose it does not matter to them where your tonnage is shipped so long as royalties are paid on your production? If you increase your tonnage, regardless of where you ship it, then they get their royalties.

Mr. Rowland: Yes I would say that is a fair assumption.

The Chairman: Does the Committee have further questions?

I would like to ask a question. Why, even under the existing tariffs, has it apparently been possible for rock salt imported into Canada from Michigan, Ohio and New York to have increased its share of the market in competition with rock salt from Canadian mines? I presume that the products of your respective companies, both at Goderich and Ojibway, are of very high quality. I am not going to attempt to pass judgment at the moment between the two brands; although as Ojibway is not far from Windsor I think I have a parochial view but I will not attempt to pass judgment. Why has it been possible for the American imports to increase their share of the market inasmuch as geographically they are very close and I presume you have aggressive sales forces and so on? Why have they been able to catch on to a certain extent?

Mr. Rowland: Well, tonnage is the key for the large blocks of tonnages which are bid on by sealed tender. Probably it is by opening a sealed tender in which they suddenly gain a block of 38,000 tons for sale on the basis of one price.

The Chairman: At the moment are you able to supply the same quantities?

Mr. Rowland: Yes.

Mr. Huffman: You do not want to forget geography; the American mines in the Cleveland area are actually closer to the large Canadian markets of Toronto and Montreal than the Canadian mines at Ojibway and Goderich.

The Chairman: I see. I believe rock salt is mined across the Detroit River at Wyandotte?

Mr. Rowland: Very close to Detroit itself.

The Chairman: It is somewhere there and I was just wondering whether this mine has been able to compete successfully with Canadian rock salt in the Toronto area?

Mr. Rowland: Yes, it has in certain instances.

The Chairman: You say this is because they have been able to tender more successfully.

Mr. Rowland: Large industry in the United States has lower production costs generally and I would say this might hold true of the salt industry in the United States as against the salt industry in Canada.

The Chairman: But as far as the particular mines are concerned, again I may have this all backward, if you have the capacity of salt and you increase your production, would it not decrease your cost per ton?

Mr. Rowland: Exactly.

The Chairman: In considering a particular mine, if you draw up a bid based on the idea that if your bid were accepted you would increase your production, you would therefore be able to lower production cost.

Mr. Rowland: That sir is the way we enter most bidding.

The Chairman: Assuming I am correct in saying that both your products are of very high quality and you have efficient technical people and sales forces, I was just wondering how it is that Wyandotte Chemicals could actually stand up against you fellows. You say that is just the luck of the bid, is that it?

Mr. Huffman: All we can do is repeat what Dr. Annis said that tonnage-wise we are selling a fair bit in the United States and they are selling a much smaller tonnage here. But they have exposed to them a much larger percentage of the Canadian market because a much larger percentage of the Canadian market is spread along the lakes where they can get their cheap salt in by boat. So you are talking almost percentage-wise here, are you not?

The Chairman: Of course I do not have the whole picture before me on a daily basis, but I have a picture in my mind of where the mines are located on both sides of the International Boundary and I am just wondering how they have been able to increase their share of the markets that are not far from either Goderich or Ojibway?

Let me ask another question in conclusion. The question of creating new mines and so on would not really arise until such time as the supply of salt in the ground available to a particular mine were exhausted. Am I correct? If you had a mine with great reserves of salt and you were at least, as Mr. More pointed out, able to expand your production even though the share would not be what you would otherwise hope it to be, am I correct in assuming that you would just keep on working?

• 1645

Mr. Huffman: You can only pull so much salt up through the hole. The hole is only so big and you can only run skips in it so fast. So in any year the number of tons you can bring up through a shaft are limited. It would run around 2 million tons and then you would have to dig another shaft.

The Chairman: I see. Is there a choice between digging another shaft in the same mine or opening a new mine?

Mr. Huffman: The main expense is the shaft. I am not prepared to be specific but the shaft is the major part of the cost.

The Chairman: What I am driving at is at what point would the question of opening a new mine in a different community for example, say in the United States as distinct from one of your existing areas of operation, actually arise?

Mr. Huffman: As soon as we reach the hoisting capacity in a shaft and I would say it will happen sometime before the next five years are out.

Mr. Rowland: And there may be a geographic shift in markets too. The markets shift from time to time and it may be a better situation to put the mine on a slightly different geographic location closer to a market.

The Chairman: What about the existence of a trained labour force and soon? Is it not a fairly highly skilled occupation?

Mr. Rowland: This certainly has bearing on it.

The Chairman: I was thinking of your going to a new area where you do not have the same selection of skilled miners and technicians.

Mr. Rowland: This certainly has bearing on it.

Mr. More (Regina City): Mr. Chairman, I just want to clarify one thing. If I understood the information provided correctly; if I assessed it correctly, the main point you are making is not that the tonnage of your present operation will be reduced by this agreement, but that concerning the opening of future shafts it might well mean there will be no new Canadian openings.

Mr. Huffman: Yes. This is a possibility and the other point, of course, is that it does work

somewhat of a hardship even with existing facilities. But the statement you made that it is not going to decrease our present tonnage is I believe a correct one. We hope not.

The Chairman: I think Dr. Annis wanted to say something.

Dr. Annis: I wondered if I could pursue that a little further? I must confess that I am puzzled over the reasons both companies are so pessimistic about the opportunities for expanding sales to the United States under the situation that is going to develop. By 1972 the United States rate on bulk salt will be down to 16 cents per ton, which is a very low rate having regard to the fact that the main Canadian producing areas are right on the Great Lakes where salt can move both ways by ship. On the American side of the border, also on the lakes, are very large population centers. Beginning at Buffalo there are Buffalo, Cleveland, Detroit, Milwaukee, and Chicago. Those are big places with a lot of chemical producers that are leading salt consumers. Also the States of Michigan and Illinois, also on the lakefronts, are big users of highway salt and the potential market there, surely, if you can break into it, is much greater than what is on the Canadian side of the lakes. I am still unclear as to why you are so pessimistic about the opportunities of breaking into that market in a big way that might justify opening additional productive capacities in your Canadian operations over the period of the next five or ten years.

I recognize there may be marketing problems but in the one case surely the connection with Morton Salt in that regard ought to be an advantage because they have a ready-made marketing organization on the United States side of the border.

• 1650

It is clear that I just do not know enough about the subject. However, it seems to me that there is an unanswered question there. I was wondering if I could be provided with comments on that.

Mr. Rowland: My comment Dr. Annis, would be that with the way the tariff is now set to go over the period of the next few years Canada will reach a point totally without tariff protection; the U.S.A. will still have minimal, granted, tariff protection. I would say too, as I have stated before, the U.S. market is much more difficult to penetrate,

tariff aside, than the Canadian market. These probably are the areas in which the most trouble would ensue.

Mr. More (Regina City): May I ask a supplementary question?

The Chairman: Will you yield to Mr. More for a supplementary question?

Mr. More (Regina City): Your 1966 production was 4,491,000 tons. What is the total maximum capacity of your present operation? Is it 10 million tons or 12 million tons? You said earlier you thought it would be reached within the five years.

Mr. Huffman: I can only do a little guessing here. I have been away from production a little while and I do not know the facilities of the Canadian Salt Company too well.

However, concerning our dry salt production, that 4 million odd tons includes brine.

Mr. More (Regina City): I am taking that from the first page, 4,491,000 tons. You call it total shipments.

Mr. Huffman: But only 2,764,000 tons were dry salt.

Mr. More (Regina City): I see.

Mr. Huffman: Most mines of the type that we have, depending on the seams and the type of hoisting equipment, have a maximum capacity of about 1.5 to 2 million tons annually. We have two of these in the area we are talking about, the two companies.

Mr. More (Regina City): Is that your company or both companies?

Mr. Huffman: Both companies. Canadian Salt have their mine at Ojibway and we have our mine at Goderich.

Mr. More (Regina City): But your present facilities will not allow you to double your present tonnage; it is somewhat less than that.

Mr. McKinley: Following Dr. Annis' remarks that he does not understand why future production will be curtailed, it seems quite obvious that the reason is right in front of us following the difference for each year. It will come about from the tariff negotiations where salt going into the United States will be reduced by 50 per cent with the United States tariff and salt coming into Canada reduced 100 per cent, and it was practically 100 per cent higher than the American tariff prior to January of this year.

It seems to me that by 1972 this will create a definite hardship and I cannot follow your statement that you cannot see it; I think it is right in front of us. I do not know whether you are aware that I live 20 miles from Gode-rich where the salt mine and the packaging plant are. I am quite concerned, although the salt companies do not seem to be as concerned as I, that they may decide it is more profitable to operate a salt mine on the other side to get around these tariff changes than to operate on our side. I think certainly this would be detrimental to all the people in the vicinity where I live and it threatens employment, among other things. I do not understand why you can not see this. Further to that, I honestly believe that you can see it.

Mr. Burns: To make sure I understand correctly, when you talk about 633,000 tons in Canadian exports to the United States, this should be related to your total shipments of 2,764,000 tons; is that right? and if I calculate that correctly, it means that something over 20 per cent of the total Canadian production of dry salt is now being exported to the United States.

Again, just as a question without enough background, does it not provide evidence that the Canadian industry is a very competitive industry so far as the United States is concerned if 20 per cent of its total volume is moving into its competitor's market over a tariff of 1.7 cents per 100 pounds?

Mr. Rowland: We feel we are very aggressive in these markets, Mr. Burns. I think the point at which we are at loggerheads here is that we would like to go into the fray without this tariff on our back or, if we have it, at least have the protection of an equivalent tariff in Canada.

Mr. McKinley: I will finish my remarks with a definite question and it comes from what you said before. If, as these gentlemen state, the American market has been hard to penetrate and they have not secured increases in their exports comparable to the growth in consumption in the United States under the present basis, how do you anticipate they will be able to do better in the future under the basis that will be coming into effect by 1972?

Dr. Annis: I was reasoning, possibly not correctly although this would be my line of reasoning, that the barrier against our exports to the United States is going to be a lower barrier. This is one part of the proposal that it is easier to hurdle.

Second, the very fact that you have a more competitive position in Canada and can meet import competition on a duty free basis would create a stronger incentive to market abroad as well as at home. I suppose it is difficult to generalize, but in some areas at least the experience seems to be that a sheltered domestic market rather reduces the incentive to go out and really dig for export business. Now it may be that is not applicable under present circumstances; I would not want to make any judgment on that point.

Mr. McKinley: I understand your reasoning. You are more or less taking into account that the American tariff is going to be reduced 50 per cent and this will be advantageous to Canadian firms regardless of the tariff in the other direction.

Dr. Annis: Yes.

The Chairman: Are there any other comments?

Mr. Huffman: Yes. The export market available to Canadians other than the United States is very small because of the transportation factor mentioned here. We are able to ship some highly specialized salt—highly manufactured and having specialized packages—into some areas in small tonnages, but generally our export market is the United States and I believe it will be for a long time to come, with existing facilities. If we perhaps were able to get facilities in other areas, with ocean freight going down because of large bulk carriers, the picture might change, but not in the foreseeable future.

• 1700

The Chairman: Thank you very much, gentlemen. We seem to have completed the list of people who have questions or comments to exchange with you. I think members have gained a better understanding of not only your industry but, more importantly, the concerns which you feel are related to the tariff changes arising out of the Kennedy Round agreements, and perhaps equally important, the officials have had a better opportunity to understand these concerns on your part. Let us hope they will remain in close touch with you on these matters and vice versa. So that with respect to Dr. Annis' responsibilities, if the injury section of the GATT agreement seems to become relevant in the future, proper action can be taken. With respect to Mr. Burns's department, it, of course, is in an immediate position to assist you in hopefully expanding your share of the export market.

Mr. Burns: Mr. Chairman, we are particularly interested in getting as much detailed information as possible on the kind of non-tariff obstacles that are faced by Canadian salt producers. I think one of these gentlemen mentioned a ruling in New York State. I do not know whether they have discussed this with us but there may be some opportunity for us to help ease that situation.

The Chairman: Through your trade commissioner services, and so on? Of course, Mr. Drahotsky's department is interested in improving technological capacity, and so on, although I think the gentlemen before us are quite skilled in any event. As Mr. McKinley has done, I should make a declaration that

has been implicit in some of my own comments because the Ojibway mine is part of the area which I represent and naturally I am not without concern about the possible implications. So let us hope that the worst does not take place and the optimistic forecasts of the officials will prove to be the case. Obviously, it also is very essential that close contact be maintained between you gentlemen and the departments concerned

Thank you very much for giving us the benefit of your views today. We are now adjourned until Tuesday morning at 11.00 a.m. when we will hear from the Canadian Manufacturers' Association and Electrohome Industries.

APPENDIX "R"

THE CANADIAN CHEMICAL PRODUCERS' ASSOCIATION

SUBMISSION TO THE STANDING COMMITTEE ON FINANCE TRADE AND ECONOMIC AFFAIRS

JANUARY 1968

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SUMMARY OF SUBMISSION

While some products will gain some export benefits, some will gain in exports but lose domestically and others will lose in their share of the basic home market, on balance the Canadian chemical industry will lose by the Kennedy Round. The Standing Committee can, however, greatly influence the degree of the impact of the Kennedy Round on the industry by recognizing the problems in and taking action on the following areas:

1. The rates on chemicals and plastics agreed to by Canada in the Kennedy Round were upper limits only. The actual rates that will apply on commercial transactions are still unknown by the industry.

2. A completely new Canadian tariff on chemicals and plastics is to be introduced by July 1st, 1968. No further concessions below the rates actually negotiated should be made therein.

3. The statutory rates on the products not currently made in Canada and on the products of the future should be the same as those on products made in Canada. Provision for entry of such products at reduced rates should be made only through temporary items by Order-in-Council so that the privilege can be rescinded promptly, when the circum-

stances change, without the need for an Act of Parliament.

4. The Canadian anti-dumping legislation and its administration should provide quick and effective application of dumping duties on every case of injurious dumping, including the first offence.

INTRODUCTION

The Canadian Chemical Producers' Association represents 46 companies that produce ninety percent of chemicals made in Canada. The members range in size from small, privately owned firms to some of the larger companies in Canadian industry. Their assets total 2½ billion dollars and they employ some 74,000 persons in all parts of the country.

The overriding concern of our Association is growth—of the Canadian economy and of chemicals within the economy. The chemicals sector is basic in the industrial structure, pervasive in its inter-industry relations, and characterized by rapid technological change. It is, therefore, potentially a major vehicle of economic growth. The chemical industry in Canada has indeed contributed to the nation's growth. Production in volume terms during the past decade has expanded at an average annual rate of about six percent. Direct effects in terms of employment and living standards are significant. The indirect benefits multiplied throughout the economy constitute an even greater contribution.

Even though the growth of chemical in Canada has been above the national average, the industry has not been the dynamic pace-setter which it has been in other industrialized countries. Production has advanced less rapidly during the past decade than that in any other of the sixteen countries of the Organization for Economic Co-operation and Development.¹ Imports of chemicals into Canada have increased more rapidly than have exports from Canada, so that imports now stand at a level almost twice the value of exports.

¹ Ranked in order of percentage change from 1958 to 1965, the O.E.C.D. members are:

Spain 287, Japan 244, Italy 235, Switzerland 231, Netherlands 231, Germany 214, Belgium 204, Austria 200, France 193, Ireland 191, Greece 184, United States 173, Norway 163, United Kingdom 162, Canada 155, Denmark, being based on 1961 figures rather than 1958, stands at 140 percent.

An uncertain business environment now weighs heavily on the chemical industry. The structure of future tariff rates, the subject of study by the Tariff Board, has been in suspension for twelve years. Added to this is the whole problem of uncertainty imposed upon the industry as a result of the Kennedy Round. The chemical industry does not know the actual tariff rates that will be imposed; the industry does not know the legislation that will be introduced in Canada to implement the international anti-dumping code.

We welcome this Committee's review of the Kennedy Round and our opportunity to appear before it. We will, in this brief, address ourselves to three topics which, in our opinion, must be given serious consideration by this Committee. The topics are:

1. The Kennedy Round Rate Negotiations
2. The New Tariff on Chemicals & Synthetic Resins
3. Anti-dumping Legislation

1. *The Kennedy Round Rate Negotiations* *Chemicals*

Canada agreed to cut the 20 percent rate generally applicable on Canadian chemicals by one quarter, to a ceiling of 15 percent. The United States agreed to cut its rates on most chemicals in half, the reduction being staged over a five year period. There is a wide disparity in the level of United States rates on chemicals. Some rates are low and the Kennedy Round reductions thereon will permit imports; however, many United States rates were prohibitive before the Kennedy Round and will remain prohibitive even after the 50 percent cut. In contrast, Canada has undertaken that no Canadian chemical shall have a rate in excess of 15 percent.

The E.E.C. agreed to a cut of one-fifth from levels of around 20 percent. It also agreed to further cuts provided the United States repeals the American Selling Price (ASP) provision for valuation. The repeal of ASP can only be enacted by Congress and it is by no means certain that the United States Congress will agree. It has until 1970 to decide. Canada, in contrast, will make its total commitment in one step effective July 1st, 1968.

Synthetic Resins

The production of synthetic resins, commonly known as plastics, is one of the greatest growth areas. This is recognized through-

out the world and other industrialized countries have long taken steps to safeguard this fastest growing segment of their chemical industry. While their concessions followed the same pattern as on chemicals, the E.E.C. was working from a level of around 20 percent and the United States was working from levels of around 25 to 35 percent. Canada, however, entered the Kennedy Round with rates of 0 percent to 7½ percent on basic resins and agreed to a ceiling of 10 percent on basic resins. The Canadian ceiling rates on synthetic resins under the Kennedy Round were set too low for sound growth. They should have been more in line with those of the major world producer and exporter of resins to Canada—the U.S.A.

The Kennedy Round was intended to be a two-way street. It was supposed to enlarge the opportunities for Canada to export. In return, it made conditions easier for other countries to export to Canada. The Kennedy Round agreements may have the desired effect for some industrial sectors, particularly those exploiting natural resources. The street, however, will not be two-way for chemicals and synthetic resins. Exports of chemicals and synthetic resins from Canada will not be substantially increased as a result of the Kennedy Round, whereas imports into Canada will be. Canada's already serious imbalance of trade in chemicals will be further aggravated.

The situation on Canadian chemicals and allied products is unique. Not only are the ceiling rates agreed under the Kennedy Round coming into effect July 1st, but so also is a whole new Canadian chemical tariff classification and rate structure. The Canadian chemical industry is the only industry of all the industries and countries participating in the Kennedy Round that still does not know what tariff rates will apply on its products. We know only that the rates will not be more than the bound ceilings.

2. *The New Tariff on Chemicals and Synthetic Resins*

Since Canada has agreed to the ceilings on both chemicals and synthetic resins, there may be little that the Standing Committee can do about them. There is, however, a great deal that the Committee can do within this framework on the new chemicals and allied products tariff schedule both in format and on rates.

The Tariff Board recommendations, if adopted without major modification, would discourage the manufacture of new products

in Canada. This is exemplified in its recommendation that the statutory rates on all synthetic resins, that are not as yet produced here, be Free for both the B.P. and M.F.N. countries, and that the statutory rates on all chemicals not currently made in Canada be Free for B.P. countries.

It is unrealistic to expect that prospective producers of new products, faced with the alternatives of putting a plant in Canada, the U.K., Europe, Japan or the U.S., will select Canada as the best site, if Canada has zero rates. By going elsewhere, they can not only enjoy first call on a larger home market available preferentially because of existing tariff rates, but can enjoy the unprotected Canadian market as well.

The Tariff Board's proposed "solution" for obtaining rates on new products promptly is to destroy the one area of flexibility in the current tariff, viz., the made-in-Canada concept, without offering a suitable mechanism as replacement. It proposes going through a Tariff Board Reference, a subsequent study by the Department of Finance and, finally, an Act of Parliament. Practical experience has shown this a very cumbersome, time-consuming, costly, and uncertain process. There are products for which a tariff rate was warranted and requested before Reference No. 120, i.e., before 1956. Twelve years later they are still awaiting adequate tariff treatment by this route—scarcely a prompt or efficient procedure. The industry requires a procedure similar in effect to the new administrative device which the government is creating for handling the duty on machinery, viz., to be able to assess duty on made-in-Canada or competitive products while not unduly penalizing someone who wishes to use a non-competitive, not made-in-Canada product.

Here is what the Committee can still do within the limits of the Kennedy Round agreements to foster a sound expanding chemical and plastics industry in Canada:

A. Recommend that in the new tariff of July 1st 1968 the maximum rates permissible under the Kennedy Round be set as statutory rates for essentially all chemicals and plastics.

B. Recommend that there be a simple mechanism whereby a chemical can be temporarily accorded a lower rate of duty by Order-in-Council for as long as it is not competitive with Canadian products.

3. *Anti-Dumping Legislation*

Canada subscribed to an International Code on anti-dumping in the Kennedy Round. This will require new Canadian legislation which is to be operative by July 1, 1968. Our greatest concern about the Kennedy Round is the wording and administration of this legislation.

Major participation in one's home market is almost universally a prerequisite for the building of a strong industry. Article VI of the G.A.T.T., itself, condemns dumping if it causes or threatens material injury to an established industry or materially retards the establishment of a domestic industry. The code on the other hand is primarily an instrument for facilitating dumping without penalty.

No other country in the world has the dumping problems that compare with those of Canada. We are sufficiently close to our largest trading competitor that transportation is a minimal barrier. We are sufficiently different in climate and fashion, that over-production and ends-of-runs can conveniently be disposed of here. A surplus of 2 or 3 per cent of U.S. production of a chemical can take over 30 or 40 per cent of the Canadian market.

These are some of the reasons why Canada was the first country in the world to require and to institute anti-dumping legislation some sixty years ago. Measures that may be adequate elsewhere are not necessarily adequate here. Yet, the content of the code largely reflects the interests of our competitors, not of Canada.

The code requires evidence both of dumping and injury—dumping being measured on the basis of information internal to the country of export, injury being measured in Canada. We fear that problems of data collection will be virtually insurmountable because of the volume of dumping cases that we foresee and the time limitation on investigation. Problems of establishing criteria for injury and of isolating causes of injury are not more amenable. Measurement is so difficult and injury so nebulous, we fear that cases of dumping can be resolved only through recourse to administrative rules-of-thumb and legal conventions. But, a body of regulations, administrative experience, and precedent will require years to be formulated. Furthermore, there may be loopholes due to the scope for product-differentiation, a particular difficulty among chemicals.

In the government release announcing the International Code, the statement was made

that the "Code provides that Canada...has the right to apply anti-dumping duties quickly and effectively when dumping injures domestic producers...". Examination of the code, however, suggests that, since both dumping and injury have to be determined at the time of entry and dumping duty cannot be retroactive in most cases, the first dump, in fact, will normally go unpunished, in conflict with the spirit of Article VI, and to the detriment of Canadian producers. Considering the latitude for minor variation among chemical products, we anticipate the probability of a sufficient number of first "bites" to severely damage the industry. We believe, therefore, that one defence of Canadian industry may well have been sacrificed.

The Minister of Finance made a statement on July 10th 1967 which said that where dumping has caused or threatens to cause damage to domestic industry, "your government intends to see to it that in Canada anti-dumping duties are quickly and effectively applied".

We whole-heartedly support this objective but feel that the greatest skill and care in drafting the new legislation will be required for the administration to be permitted by law to achieve it. It is equally important that the legislation clearly express the objectives for the guidance of the administering authorities. Without the will to enforce it, the best of legislation is valueless. If this legislation is weak or is not vigorously administered, the harm to Canadian workers' jobs and to Canadian production will be incalculable. Any benefits that might have been derived from rate negotiations could be completely wiped out if injurious dumping is not effectively prevented.

We therefore urge that the proposed Canadian legislation on anti-dumping be referred to Parliament and the Standing Committee without delay. We request the opportunity to present a further submission when the draft legislation has been made public and the Standing Committee has this vital matter under detailed study.

CONCLUSION

The optimism which surrounded the Kennedy Round negotiations has turned to pessimism in many areas of world trading conditions.

The agreement on the part of the European Economic Community to reduce tariffs on

chemicals beyond the initial 20 percent, is predicated on the removal of the American Selling Price (A.S.P.) provision from the U.S. Tariff. A.S.P. was inaugurated in 1922 to protect benzenoid chemicals, and its removal will require Congressional approval. The U.S. Congress in the Fall of 1967 was not disposed to trade liberalization, but, on the contrary, proposed a large volume of bills placing quotas on imports. We do not yet know whether these will materialize.

Time has brought financial difficulties for Canada, for the United Kingdom and the sterling area, for the United States. It has brought the irritant to North America of the system of value-added taxes in the European Economic Community, a system which discriminates against the trade of countries which rely more heavily on corporate income taxes rather than indirect taxes. It has brought threats from the United States and Canada of export subsidies and import taxes. It has brought restrictions on U.S. investment abroad. It has brought the prospect of tighter capital markets in Europe and Canada, and of at least some world-wide deflation.

The Kennedy Round results and subsequent developments indicate the need for flexibility in Canada. Commercial success is not only a matter of international goodwill. Any steps taken should be in response to reciprocal action on all sides. We urge Canada not to lower chemicals tariffs completely and irrevocably on a unilateral basis. We urge the examination at an early date of the new Canadian legislation on anti-dumping, and the establishing of its consequences before the legislation is brought into effect.

The Canadian chemical industry has been growing at a rate of about 6 percent, and the total domestic Canadian chemical market in 1966 was \$2.1 billion. Assuming that the gross national product advances at the forecast rate of 5.5 per cent per annum, it is estimated that by 1975 the Canadian market for chemicals will be \$4.2 billion. If the productivity of Canadian chemical workers continues to increase at the rate of 5 percent per annum, as it has over the past 15 years, by 1975, if the total Canadian market were supplied by Canadian production, employment could increase from its present level of 74,000 to 102,000. These people, of course, represent a level of skills and income above the average for Canadian manufacturing industry. How closely we approach this level of 102,000 jobs in the chemical industry will depend on the economic environment, two very significant

aspects of which are tariffs and anti-dumping legislation. We would urge that the Standing Committee recognize the close relationship between adequate tariffs and anti-dumping legislation and job opportunities in the chemical industry.

There can be no doubt as to the kind of benefit Canada derives from a strong secondary industry. We urge that this benefit not be lost from sight as the Standing Committee brings forth its recommendations on the Kennedy Round in the world of today.

APPENDIX S

DEPARTMENT OF TRADE AND
COMMERCE

OTTAWA 4, January 31, 1968

Mr. Herb Gray, M.P.,
Chairman,
Standing Committee on Finance,
Trade and Economic Affairs,
House of Commons,
Ottawa.

Dear Mr. Gray:

In the course of the proceedings of the Standing Committee on Finance, Trade and Economic Affairs on the Kennedy Round last week, several questions were raised pertaining to the European Economic Community's import quotas on certain products, Canadian exports of uranium to the United States, the Brussels Tariff Nomenclature, and Canadian trade relations with South Africa. Replies to these questions are attached.

Yours faithfully,

M. Schwarzmann,
Assistant Deputy Minister
(Trade Policy).

1. EEC Quotas

(A) Aluminum

As a Kennedy Round concession, the European Economic Community will establish, effective July 1, 1968, a bound 5% annual tariff quota of 130,000 metric tons. The non-quota rate will remain unchanged at 9%. The quota will be a global quota, open to exporters on a first come first served basis. On the internal allocation of imports, no decision has been taken yet by the EEC Council of Ministers.

In recent years Germany and the Benelux countries have imported aluminum at the 5% rate under autonomous or unbound quotas agreed to by the EEC. These imports in 1967, unchanged from 1966, were:

	Metric Tons
Germany	121,000
Belgium-Luxembourg ..	35,000
Netherlands	13,000

Canadian exports of aluminum to the EEC in 1966 and the first nine months of 1967 were as follows:

	Jan.-Dec. 1966	Jan.-Sept. 1967
Total Canadian Exports to EEC	34,700 short tons	32,500 short tons
Belgium-Luxembourg	3,700 " "	7,500 " "
France	2,500 " "	2,200 " "
Germany	17,100 " "	14,400 " "
Italy	9,200 " "	6,300 " "
Netherlands	2,200 " "	2,100 " "

(B) Wood pulp

In the Dillon Round, the EEC bound a duty-free quota of 1,935,000 metric tons for chemical wood pulp. This concession continues and, in addition, the EEC will be reducing its tariff from 6% to 3% as a Kennedy Round reduction.

This quota is global and open to imports from all sources. There is no formal allocation

of the quota among the member countries of the EEC. The member countries are, however, obliged to inform the EEC Commission of their duty-free imports. The GATT commitment establishes a minimum guaranteed free entry quantity. It is not excluded that additional quantities of wood pulp may also be imported duty-free, on an autonomous or unbound basis.

	Jan.-Dec. 1966	Jan.-Sept. 1967
Chemical Wood Pulp		
Total Canadian Exports to EEC	303,500 short tons	355,500 short tons
Belgium-Luxembourg	18,700 " "	9,500 " "
France	29,100 " "	36,300 " "
Germany	103,300 " "	113,400 " "
Italy	92,700 " "	128,700 " "
Netherlands	59,700 " "	67,600 " "

(C) Newsprint

In the Kennedy Round, the EEC bound duty-free entry for 625,000 metric tons of newsprint. As in the case of aluminum, the

EEC has had autonomous duty-free quotas for newsprint for some years. In 1966 and 1967 this quota was used as follows:

	Metric Tons
Germany	550,000
France	115,000
Total	665,000

Arrangements for the allocation of the bound quota among EEC members have not yet been announced. It is not expected that

there will be any allocation of the quota among exporting countries.

Canadian exports to the EEC in 1966 and 1967 were:

	Jan.-Dec. 1966	Jan.-Sept. 1967
Total Canadian Exports to EEC	71,600 short tons	60,100 short tons
Belgium-Luxembourg	7,600 " "	1,100 " "
Germany	58,800 " "	38,200 " "
Netherlands	5,200 " "	20,800 " "

2. Uranium

According to Canadian export statistics, almost \$14 million in radioactive ores and concentrates were exported to the United States in 1966. The bulk of this trade was probably carried out under the original war-time sales contract which expired in 1966. Exports for the first nine months of 1967 are valued at \$1 million, compared to \$11.6 million in the same period in 1966.

There are no prohibitions on the export of radioactive materials to countries with whom we have arrangements to ensure that the material is used for peaceful purposes. We have such an arrangement with the United States.

In addition to commercial sales which may be made to the United States, there is some movement to the United States of radioactive materials for toll enrichment and return to Canada or to third countries where nuclear safeguard arrangements are in force.

3. Brussels Tariff Nomenclature

The Brussels Tariff Nomenclature does not contain a final basket item analogous to that in the Canadian tariff. Rather, basket items are found within individual chapters.

4. Canada-South Africa Trade

Canadian-South African trade relations are governed by the Trade Agreement of 1932. Under the terms of the Agreement Canada receives tariff preferences on specified items.

In exchange South African goods enjoy preferences in the Canadian market. The following table gives the major trade items on which Canada receives preferences:

Item	Preferential Rate	Canadian Exports	
		M.F.N. Rate	(\$ Can.) 1966
(Specific rates are in S.A. cents)			
Canned Salmon	125¢ per 100 lb.	250¢ per 100 lb.	316,980
Canned Sardines	125¢ per 100 lb.	250¢ per 100 lb.	216,987
Coniferous lumber	1455¢ per 100 cu. ft. free	1500¢ per 100 cu. ft.) 45¢ per 100 cu. ft.)	2,969,306
Deciduous lumber	free	2%	215,742
Newsprint	free	5%	2,791,024
Copper pipe fittings	15%	20%	114,606
Hand tools	free	3%	386,726

Since 1932 the preferential schedules have been amended by exchanges of letters. However, there has been no renegotiation or review-in-depth of the Agreement. Major Canadian exports to South Africa are as follows:

Item	1965	Jan.-Oct. 1967	
		1966 (\$000 Can.)	
Wheat	—	6,913	15,619
Sulphur	1,761	3,361	2,108
Lumber	7,353	3,070	3,371
Newsprint paper	7,799	2,791	943
Aluminum ingot	10,493	15,230	7,816
Passenger automobiles	18,012	17,068	7,379
Parts and accessories for automob- iles	5,651	4,595	2,966
Total all Canadian exports to South Africa	76,226	74,393	64,804
Total Canadian imports from South Africa	27,113	27,641	23,837

South Africa has been a party to the General Agreement since 1948 and participated in the Kennedy Round.

APPENDIX "T"

MEMORANDUM REGARDING
SECTION 6 OF THE CUSTOMS TARIFF ACT
- DUMPING DUTY -

The main provisions of section 6 of the Customs Tariff Act have been in effect since 1904; since 1904 provision was made for allowing duty and taxes for dumping duty purposes.

Section 6 of the Customs Tariff Act enables Customs Appraisers to collect special or dumping duty when the selling price to the purchaser in Canada is less than the "value for dumping duty purposes" on the date of order, on goods of a class or kind made in Canada.

The value for dumping duty purposes is the value for regular duty purposes less the allowances authorized to be deducted, from the value for regular duty purposes, under the provisions of section 6 of the Customs Tariff and the regulations made under the section.

The valuation sections of the Customs Act, now sections 36 to 41A, define dumping. Each one of the valuation section of the Customs Act plays a part in defining "dumping". Every time a valuation section of the Customs Act was changed or repealed and a new valuation section inserted in its place, the definition of dumping was changed.

In the past ten years, dumping has been re-defined six (6) times, i.e., 1948 c. 41, 1949 (2nd session) c. 14, 1953-54 c. 3, 1955 c. 32, 1958 c. 26, 1965 c. 16.

There has been a long history of "class or kind". The phrase first appeared in enumerations (tariff items 291 and 327) of the Customs Tariff in 1890. The phrase "class or kind" has not had a different meaning depending on whether the purpose was for tariff classification or the application of dumping duty.

I believe it would be of interest to the Committee to know that dumping duty is paid on few importations. It is not paid by the same importer a second time. An exporter does not knowingly show a value and a selling price that results in dumping duty being paid.

It is the practice of exporters to show a value and a selling price that will not attract dumping duty.

Some importers in Canada will order goods through an affiliated company located outside Canada. The goods are purchased by the affiliated company at a price that is less than the value for dumping duty purposes. The affiliated company will prepare the customs invoice will be higher than the price paid by and selling price shown on the customs invoice will be higher than the price paid by the affiliated company and sufficiently high not to attract dumping duty.

Such transactions result in the difference between the affiliated company's purchase price and selling price—the profit staying with the affiliated company outside Canada.

Dumping duty payable results from re-appraisal, after importations, by Customs Appraisers. In many, if not in most, cases Customs makes investigations prior to importation and advises the exporter as to the value of dumping duty purposes as well as to the value for regular duty purposes.

The Dominion Customs Appraisers in Ottawa, on valuation work, have marked power for the work they do. The Valuation Section of Customs has been responsible for appraisals for regular and dumping duty purposes since 1904.

The anti-dumping code approved at the GATT has valuation provisions that require determinations as to the value for dumping duty purposes. The valuation provisions of the anti-dumping code are, in our opinion, by far the most important concessions that exporters to Canada and importers in Canada have received in the Kennedy Round. Because, the anti-dumping code agreed to the GATT provides:

"In order to effect a fair comparison between the export price and the domestic price in the exporting country (or the country of origin) or, if applicable, the price established pursuant to the provision of Article VI: 1(b) of the General Agreement, the two prices shall be compared at the same level of trade, normally at the ex factory level, and in respect of

sales made at as nearly as possible the same time. Due allowance shall be made in each case, on its merits, for the differences in conditions and terms of sale, for the differences in taxation, and for the other differences affecting price comparability..."

Many of the major importers of finished goods for sale and distribution in Canada are "warehouse distributors" selling to wholesalers, chain stores and department stores. A like class of trade does not exist in Europe and only in a few cases in the United States. European and United States manufacturers have their own warehousing facilities and selling organizations, delivering and selling to

chain, department and retail stores in their home markets.

The anti-dumping code should provide fair and equitable treatment to importers at all levels of trade in Canada.

"Class or kind" is not a test in the anti-dumping code. The new test is "like product", i.e., alike in all respects to the product under consideration, or, in the absence of such a product, another product which, although not alike in all respects, has characteristics closely resembling those of the product under consideration.

The new test in new "machinery" tariff item 42700-1 is not "class or kind", it is not "like product", it is something different.

APPENDIX U

BRIEF SUBMITTED TO TARIFF SECTION,
DEPARTMENT OF FINANCE RE: KEN-
NEDY ROUND TARIFF NEGOTIATIONS
TARIFF REFERENCE NO. 120—CHEMI-
CALS—SODIUM CHLORIDE—SALT

A JOINT SUBMISSION BY THE SALT
INDUSTRY OF CANADA: CANADIAN
SALT COMPANY LIMITED; DOMTAR
CHEMICALS LIMITED—SIFTO SALT
DIVISION

January 9, 1968

The intention of this brief is to provide the Tariff Section, Department of Finance with a factual background of the Canadian Salt Industry with supporting statistics. It is also intended to outline the policy which the industry recommends should be adopted with respect to tariffs affecting the industry.

A more complete background of the industry, together with supporting statistics, is contained in Appendices Number One and Two.

Canadian Salt Industry

The salt industry in Canada has developed from a number of small plants, at the turn of the century, producing a low quality grainer salt in open vessels, to large, complex operations manufacturing a high quality product by vacuum evaporation or a lower grade product by underground mining. Today, two companies operate seven evaporator plants and three rock salt mines in Canada with an estimated investment approximating \$35,000,000 to \$40,000,000. The evaporator plants are located in the provinces of Nova Scotia, Ontario, Manitoba, Saskatchewan and Alberta, while the mines are located in the provinces of Ontario and Nova Scotia.

The Canadian industry shipped approximately 2,764,000 tons of dry salt with a valuation of approximately \$23,000,000 in 1966. In addition, another 1,727,000 tons of salt were produced as brine, giving total shipments of 4,491,000 tons.

Prior to 1956 Canadian rock salt production was limited to a small mine at Malagash, Nova Scotia. Between the years 1956 and

1961, three new mines with capital investments totalling \$23,000,000 were developed to meet expanding ice control and chemical markets.

The industry employs 1,300 men and women to produce and market salt in Canada. In municipalities where salt operations are located, many of the plants are the major contributors to the economy of the community. Although no firm statistics are available, it is estimated that Canadian truck, rail and vessel carriers share \$15,000,000 annually through the transportation of salt.

Federal and Provincial Governments benefit from the salt industry by the collection of royalties. Eighty-five percent of the domestic rock salt tonnage is produced in Ontario and royalty payments from five percent of the total dry mining cost. In evaporator operations, royalty payments are not applicable in Ontario and Manitoba. In the remaining producing areas royalty payments form two point four percent of the bulk salt cost in Nova Scotia, nine percent in Saskatchewan and five percent in Alberta.

Salt is a relatively low priced commodity and in many instances, shipping costs account for the major share of customer expense. It is this factor which usually controls the extent of Market participation by a producing location.

REGIONAL MARKETS

The consumption of salt in Canada by major trade or industrial category is shown on Page 3, Table 1 of Appendix 1. In Table II on Page 3 of Appendix 1, the salt consumed in the five regional areas of Canada is shown. Table III on the same page shows (a) the percentage of total imports consumed in the respective areas (b) sources of imports; and (c) the percentage of imports to the total regional markets for the types of salt consumed.

COMPETITION AND NEED FOR PROTECTION

Solar salt, rock salt and vacuum salt are the three major types of salt sold in Canada.

Solar salt which is produced cheaply in hot dry climates from sea water competes internationally for fish, chemical and ice control markets.

Rock salt, a product of direct mining operations, is widely used for chemical plants and ice control. With production costs of rock salt considerably higher than solar salt, the product is competitive only in Canada and the United States.

Vacuum evaporated salt, which is closely controlled for standards of purity, is directed to markets where quality products are of greater importance, including food processing and table salt. Because of its higher production costs, this product is seldom competitive on international markets. However, on a regional basis, competition is possible and trading exists between the United States and Canada.

According to statistical reports for 1966, the total Canadian consumption of dry salt was approximately 2,640,000 tons. Market determinations indicate 509,000 tons, or 19.2%, were imported from foreign countries. It is estimated that 496,000 tons of the imported salt entered the country in bulk form. The Canadian bulk salt consumption was approximately 2,000,000 tons and it is evident, therefore, that foreign producers enjoyed approximately 24.8% of the bulk salt market in Canada.

It is estimated that 338,000 tons of solar salt entered British Columbia from the United States, British West Indies, and Mexico in 1966. In addition, 33,000 tons of this product entered the Maritimes and Newfoundland from Spain and the West Indies.

Rock salt is imported into Canada from Michigan, Ohio and New York. American exports to Canada of 171,000 tons of bulk salt amounted to 8.5% of the Canadian bulk salt consumption in 1962. By comparison, the American bulk salt consumption was approximately 10,000,000 tons with Canadian producers exporting approximately 633,000 tons representing 6.4% of the market.

Prior to 1956, one American producer enjoyed the major share of the Canadian rock salt market and no rock salt was exported from Canada. In 1956, the Canadian Salt Company Limited opened a mine at Ojibway, Ontario and in late 1959, Domtar Chemicals Limited, Sifto Salt Division, opened a mine at Goderich, Ontario. With the opening of these two mines, imports of American rock salt

were reduced from a high of 304,000 tons in 1954 to 35,000 tons in 1960; they are now increasing, and in 1966 were approximately 135,000 tons.

The Canadian ice control market amounted to 533,000 tons in 1960 and American producers shipped 16,000 tons of ice control salt into this market. By 1966, the ice control market had grown to 1,175,000 tons and one American producer exported 135,000 tons of rock salt to Canada for ice control purposes. It is apparent that American participation in the Canadian ice control market has grown from 3% in 1960 to 12% in 1966.

Between 1959 and 1966 the American dry salt market expanded by approximately 6,000,000 tons. During this period, Canadian exports to the United States have held at approximately 4% of the market. It is therefore evident that Canadian producers have a static share of the United States' market while American producers are increasing their market share in Canada under existing tariff rates.

With this situation, the Canadian salt industry would be seriously impaired if tariff rates are in imbalance favouring American producers. From Table 11, it is seen that approximately 70% of the total Canadian consumption is in the Provinces of Quebec and Ontario. American producers have acquired a significant portion of these markets. An imbalance of tariffs will open the market to greater participation by American producers and adversely affect domestic producers.

RECOMMENDATIONS

Maintenance of a Canadian tariff on bulk salt, in view of maintenance of an American tariff, is considered essential for a healthy salt industry in Canada. It need hardly be argued that salt production in Canada, as elsewhere, is an essential industry, indeed a key industry.

It will be noted that "salt, for the use of the sea or gulf fisheries" enters Canada duty free from all countries. This is almost entirely low priced solar salt imported into Newfoundland, the Maritime Provinces and British Columbia. Domestically produced vacuum evaporated fine salt is now striving to compete with these imports into the East Coast from plants located at Nappan and Pugwash, Nova Scotia. Some success has been achieved where quality of salt is a factor, but price still presents a difficult barrier to overcome.

With foreign producers enjoying 19.2% of the total Canadian market and 24.8% of the bulk salt market, it is evident that present tariff rates permit an active degree of foreign competition.

Salt is a relatively low cost commodity, and in many instances, shipping costs account for a major share of customer expense. Through the proximity of Canadian mines to some American markets, this has permitted the present degree of participation in United States' markets. If Canadian tariffs are removed, and an American tariff retained,

Canadian participation in the United States' markets would not increase but American participation in Canadian markets could show a large increase.

A marked decrease in tonnage would sharply increase Canadian mining costs and this, coupled with the additional depressive effect on prices, would seriously impair the domestic industry.

Therefore, the Canadian Salt Industry recommends that the tariff on "Salt in Bulk", item 92501-4, be reduced to the same level as the proposed American residual tariff.

APPENDIX I

to Salt Industry Brief

CANADIAN SALT INDUSTRY

The salt industry in Canada has developed from a number of small plants producing a low quality grainer salt in open vessels, at the turn of the century, to large complex operations manufacturing a high quality product by vacuum evaporation or a lower grade

product by underground mining. Two companies operate seven evaporator plants and three rock salt mines in Canada. The evaporator plants produce vacuum salt from brine while rock salt is mined directly from the ore bed by the room and pillar method. The locations of the plants and mines in Canada are shown below.

Canadian Salt Company Limited

Plants

Windsor, Ontario
Neepawa, Manitoba
Lindbergh, Alberta
Pugwash, Nova Scotia

Product

Vacuum-pan salt
Vacuum-pan salt
Vacuum-pan salt
Vacuum-pan salt

Mines

Ojibway, Ontario
Pugwash, Nova Scotia

Rock Salt
Rock Salt

Domtar Chemicals Limited—Sifto Salt Division

Plants

Amherst, Nova Scotia
Goderich, Ontario
Unity, Saskatchewan

Product

Vacuum-pan salt
Vacuum-pan salt
Vacuum-pan salt

Mine

Goderich, Ontario

Rock salt

Two other companies produce and market salt as a by-product of their operation. Allied Chemical Canada Limited, at Amherstburg, Ontario produces by-product salt from the Solvay process which produces sodium carbonate as its primary product. Western Chemicals Limited, at Two Hills, Alberta, produce by-product salt from their vacuum evaporators which produce caustic soda as the primary product.

The salt companies, including the by-product operations, shipped 2,764,000 tons of salt in 1966. Another 1,727,000 tons was produced as brine giving total shipments of 4,491,000 tons.

Prior to 1956, Canadian rock salt production was limited to a small mine in Malagash, Nova Scotia. In 1955, this mine produced 57,000 tons of salt for distribution in the Maritime Provinces and Quebec. Between the years 1956 and 1961, the mine at Malagash was closed and three new mines, with capital investments totalling \$23,000,000 were developed to meet expanding ice control and chemical markets. In municipalities where salt operations are located, many of the plants are major contributors to the economy of the community.

Federal and Provincial Governments benefit from the salt industry by the collection of royalties. Eighty-five per cent of the domestic rock salt tonnage is produced in Ontario and royalty payments account for three per cent of the dry mining cost. For evaporator operations, royalty payments are not applicable in Ontario and Manitoba. Royalty payments from 2.4% of the bulk cost in Nova Scotia, 9% in Saskatchewan and 6% in Alberta.

The industry employs 1,300 men and women to produce and market salt in Canada. Although no firm statistics are available, it is estimated that Canadian truck, rail and vessel carriers share \$15,000,000 annually through the transportation of salt.

DISTRIBUTION PATTERNS AND MARKETS

The following table denotes the consumption of salt in Canada by major trade or industrial category and by region; distribution of imports is also shown. The total salt consumption in Canada has been estimated, using government and industry statistics for the year 1966, and from a knowledge of the Canadian Salt Industry.

TABLE I

Chemical Industry	30.5%
Ice Control—	
Highway, Roads, Streets	44.5%
Food Processing and Fishing Industry	9.5%
Animal Feeds, Feed Mixes	6.2%
Table Salt	1.3%
Water Softening; Hide Curing, Textile, Miscellaneous Industry	8.0%

Table II shows the salt consumed in the five regional areas as a percentage of the total Canadian consumption.

TABLE II

% Total Consumption

Maritime Provinces and	
Newfoundland	9.1
Quebec	33.2
Ontario	36.5
Prairie Provinces	7.5
British Columbia	13.7

The five regional markets are all served to some degree by imported salt, as indicated by Table III which shows: (a) the percentage of total imports consumed in the respective areas, (b) sources of imports, and (c) the percentage of imports to the total regional markets for the types of salt concerned.

TABLE III

Regional Markets	Approx. % of Total Imports	Source of Imports	% Relation of Imports to Total Regional Markets
Maritimes, Newfoundland	6	U.S.A., U.K., B.W.I., Spain	14
Quebec	6	U.S.A.	4
Ontario	21	U.S.A.	10.6
Prairie Provinces	1	U.S.A.	1.3
British Columbia	66	U.S.A., Mexico, B.W.I.	93.0

COMPETITION AND NEED FOR PROTECTION

There are three major types of salt sold in Canada:

- (1) Solar Salt
- (2) Rock Salt
- (3) Vacuum Salt

Although these products are the same chemically, each has a different degree of purity, and physical characteristics, which directs them to different markets.

Solar salt, which is produced cheaply, in hot, dry climates, from sea water is relatively

coarse and contains residual impurities. It is generally used in the salting of fish, in chemical plants, and for ice control purposes.

Rock salt, which is produced by direct mining, is a coarse product containing impurities, such as rock fragments and minerals, which cannot be readily removed. It is widely used in chemical plants and for ice control.

Vacuum pan evaporated salt can be closely controlled for standards of purity. While it can be used for all purposes, which would be served by solar salt and rock salt, its higher production cost tends to direct it towards markets where standards of purity are of

greater importance, including food processing and table salt.

According to statistical reports for 1966, the total Canadian consumption of dry salt was approximately 2,640,000 tons. Market determinations indicate 509,000 tons, or 19.2 per cent, were imported from foreign countries. It is estimated that 496,000 tons of the imported salt entered the country in bulk form. The Canadian bulk salt consumption was approximately 2,000,000 tons and it is evident that foreign producers enjoyed approximately 24.8 per cent of the bulk salt markets in Canada.

In 1966, it is estimated that 338,000 tons of solar salt entered British Columbia from the United States, British West Indies, and Mexico. The major portion of this tonnage is used by industries whose products enter into export and to which duty drawback is available. A small portion of this tonnage is used by the fishing industry which enters free of duty. In addition, 33,000 tons of solar salt entered the Maritimes and Newfoundland from Spain and the West Indies for the fishing industry and thus duty free.

Solar salt with its low production cost and cheap water transportation, is now competitive in Central Canada with Canadian produced rock salt which has been experiencing rising production and transportation costs. With technological advances improving the quality of solar salt, there is also a danger of cheap solar salt infringing upon markets which have, until now, required vacuum pan evaporated salt. In fact, there are many areas in Canada where rock and evaporated salt cannot compete with solar salt. This point is clearly illustrated by the information in Table III.

Rock salt is imported into Canada from Michigan, Ohio and New York and is actively competing for ice control and industrial markets.

American exports to Canada of 171,000 tons of bulk salt amounted to 8.5 per cent of the Canadian bulk salt consumption in 1966. By comparison, the American bulk salt consumption was approximately 10,000,000 tons with Canadian producers exporting 633,000 tons, representing 6.4 per cent of the market.

Prior to 1956, one American producer enjoyed the major share of the Canadian rock salt market and no rock salt was exported from Canada. In 1956, the Canadian Salt Company Limited opened a mine at Ojibway, Ontario, and in late 1959 Domtar Chemicals

Limited, Sifto Salt Division, opened a mine at Goderich, Ontario. With the opening of these two mines, American imports of rock salt were reduced from a high of 304,000 tons in 1954 to 35,000 tons in 1960; they are now increasing, and in 1966, were approximately 135,000 tons.

The Canadian ice control market amounted to 533,600 tons in 1960 and American producers shipped 16,000 tons of ice control salt into this market. By 1966, the ice control market in Canada had grown to 1,175,000 tons and one American producer exported 135,000 tons of rock salt into Canada for ice control purposes. It is apparent that American participation in the Canadian ice control market has grown from 3 per cent in 1960 to 12 per cent in 1966. Between 1959 and 1966 the American dry salt market expanded approximately 6,000,000 tons. During this period, Canadian exports to the United States have held at approximately 4 per cent of the market. It is evident that Canadian producers have a static share of the United States' market while American producers are increasing their market share in Canada under existing tariff rates.

The entire Canadian market is contained in a narrow belt approximately two hundred and fifty miles wide, extending from coast to coast along the United States and Canadian border. Competition has not been limited to rock salt producers by American companies. In southern Ontario, the major market is particularly vulnerable to both rock and evaporated products. In Western Canada, North Dakota and Utah evaporator salt producers enjoy lower freight rates to the southern portions of the Prairie Provinces than the nearest Canadian producer. In British Columbia, California producers have substantial transportation advantages over Prairie salt producers.

It is worth repeating that many producing areas shipping salt into Canada do not have to pay royalties to governing agencies. Canadian producers do pay royalties to Provincial and Federal Governments, and these royalties are an appreciable cost factor.

With this situation, the Canadian salt industry would be seriously impaired if tariff rates are in imbalance favouring American producers. From Table II it is seen that approximately 70 per cent of the total Canadian consumption is in the Provinces of Quebec and Ontario. American producers have acquired a significant portion of these markets. An imbalance of tariffs will open the

market to greater participation by American producers and adversely affect domestic producers.

Maintenance of a Canadian tariff on bulk salt, in view of maintenance of an American

tariff, is considered essential for a healthy salt industry in Canada. It need hardly be argued that salt production in Canada, as elsewhere, is an essential industry, indeed a key industry.

PRESENT TARIFF
Tariff

Canadian	Item	B.P.	M.F.N.	General
Salt in bulk N.O.P. per 100# ..	42	Free	3¢	5¢
American	420.94		1.7¢	
Kennedy Round Proposal				
Canadian	92501-4	Free	Free	
American	420.94		0.8¢	

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

ALISTAIR FRASER,
The Clerk of the House

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967-68

STANDING COMMITTEE

LIBRARY ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 22

TUESDAY, FEBRUARY 6, 1968

RESPECTING

Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

From the Canadian Manufacturers Association: Messrs. C. A. Pollock, Past President, CMA, and Chairman CMA Tariff Committee; R. Lang, Manager, Tariff Department; Archibald Johnston, Manager, Corporate Planning and Service, Canadian General Electric Company Ltd.; C. F. Terrell, Chairman, CMA Export Trade Committee. *From Electrohome Limited:* Messrs. C. A. Pollock, President; D. S. Sykes, Executive Vice-President and William N. Hemphill, Secretary. *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs. *From the Department of Trade and Commerce:* Mr. T. M. Burns, Director, Section II, Trade Relations. *From the Department of Industry:* Mr. L. F. Drahotsky, Chief, Commercial Policy Division. *From the Department of National Revenue:* Mr. A. H. Halvorsen, Customs Appraisal Division.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hales,	McLean (Charlotte),
Beaulieu,	Hees,	Monteith,
Cameron (Nanaimo- Cowichan-The Islands),	Irvine,	More (Regina City),
Cantin,	Laflamme,	Noël,
Comtois,	Latulippe,	Thompson,
Flemming,	Lind,	Wahn.
Gilbert,	Macdonald (Rosedale),	
	Mackasey,	

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, February 6, 1968.

(30)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.07 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Ballard, Cantin, Clermont, Flemming, Gilbert, Gray, Hales, Hees, Macdonald (*Rosedale*), Monteith, More (*Regina City*), Noël—(12).

In attendance: From the Canadian Manufacturers Association: Messrs. C. A. Pollock, Past President, Canadian Manufacturers Association, Chairman, C.M.A. Tariff Committee, President, Electrohome Industries Limited; R. Lang, Manager, C.M.A. Tariff Department; Archibald Johnston, Manager, Corporate Planning and Service, Canadian General Electric Co. Ltd; C. F. Terrell, Chairman, C.M.A. Export Trade Committee, Vice-President & General Manager, Export Division, The Canadian Coleman Company Limited; Peter Bartha, Director, Economic Research C.M.A.; D. H. Jupp, Ottawa Representative. *From the Department of Finance:* Dr. C. A. Annis, Director of Tariffs. *From the Department of Trade and Commerce:* Mr. T. M. Burns, Director, Section II, Office of Trade Relations. *From the Department of Industry:* Mr. L. F. Drahotsky, Chief, Commercial Policy Division, Mr. J.-P. Remy, Machinery Branch. *From the Department of National Revenue:* Mr. A. H. Halvorsen, Customs Appraisal Division.

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff resolution.

The Chairman introduced the witnesses from the Canadian Manufacturers Association and, at his request, Mr. Pollock summarized the C.M.A. brief. (*See Appendix V*)

At the Chairman's request, Messrs. Annis, Burns and Drahotsky commented on the CMA submission.

The witnesses from the Canadian Manufacturers Association, Messrs. Pollock, Johnston, Terrell and Lang, were questioned and Messrs. Annis and Burns also answered questions directed to them.

At 1.05 p.m., the Committee adjourned to 3.30 p.m. this day.

AFTERNOON SITTING

(31)

The Committee resumed at 3.42 p.m., the Chairman, Mr. Gray, in the Chair.

Members present: Messrs. Ballard, Clermont, Flemming, Gilbert, Gray, Hales, Hees, Macdonald (*Rosedale*), More (*Regina City*), Noël—(10).

In attendance: From the Canadian Manufacturers Association: The same as at the morning sitting with the exception of Mr. Terrell.

From Electrohome Limited: Mr. C. A. Pollock, President; Mr. D. S. Sykes, Executive Vice-President; Mr. William N. Hemphill, Secretary.

The same government officials as were present at the morning sitting with the exception of Mr. Remy.

Questioning of the CMA witnesses was resumed and concluded. The Chairman thanked the witnesses who, with the exception of Mr. Pollock, withdrew.

The Electrohome Limited witnesses, Messrs. Pollock, Sykes and Hemphill, were called and, at the Chairman's request Mr. Pollock summarized the Company's brief. (*See Appendix W*)

Mr. Pollock was questioned and Messrs. Annis, Burns and Drahotsky also answered questions.

The questioning having been concluded the Chairman thanked the witnesses, who then withdrew.

In accordance with the decision of January 18, 1968, the following answers provided by government officials to questions of members are appended hereto:

Appendix X: Duty applicable to hardwood flooring for railway cars.

Appendix Y: Eligibility of a Canadian subsidiary for assistance under the U.S. Trade Expansion Act.

Appendix Z: Answer to Mr. Lambert's question re tariff item 42700-1.

At 6.10 p.m. the Committee adjourned to 3.30 p.m., Wednesday, February 7, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, February 6, 1968.

• 1107

The Chairman: I think we are in a position to open our meeting, unofficially for the moment. First of all I have several procedural matters to deal with. I have been in touch with the office of the Minister of Industry and he does want to appear before our Committee and, in fact, would like to appear at our session on Wednesday afternoon. If there are no serious objections to this type of scheduling I will ask the Clerk to send out the notices for Wednesday afternoon when our witness will be the Minister of Industry.

Also I have a letter from the Deputy Minister of National Revenue, Customs and Excise, responding to a question asked by Marcel Lambert concerning tariff item 42700 in the matter of the incidence of sales and excise taxes. Following our usual procedure this will be printed in the next Proceedings. However, since this is of some interest to members and some questions may be asked tomorrow, I will ask the Clerk to make copies of it and circulate them today.

I also have here a rather lengthy telegram from the Canadian Machine Tool Dealers' Association expressing views, rather favourable views I must say, on the machinery program. I will ask the Clerk to make copies of the telegram and distribute them at our meeting this afternoon, and then I will hear the views of the members about printing it. I trust the members will wish to print it along the lines of our usual procedure in these matters.

Our witnesses this morning come from the Canadian Manufacturers' Association. On my immediate right is Mr. C. A. Pollock, Past President of the Canadian Manufacturers' Association and Chairman of the Association Tariff Committee. He is President of Electrohome Industries Limited. We may also have the pleasure of hearing from you more directly this afternoon as well, Mr. Pollock, on behalf of your own firm.

To his right is Mr. R. Lang, Manager of the Tariff Department of the Canadian Manufacturers' Association; to his right, Mr. Archibald Johnston Manager of Corporate Planning and Services, of the Canadian General Electric Company Limited; to his right is Mr. Terrell who is Chairman of the CMA Export Trade Committee and is Vice-President and General Manager of the Export Division of The Canadian Coleman Company Limited; to his right is Mr. Peter Bartha, Director of Economic Research of the Canadian Manufacturers' Association and to his right, Mr. D. H. Jupp, Ottawa Representative, Canadian Manufacturers' Association.

I will ask Mr. Pollock, to present the brief on behalf of the Association, following which we will proceed to discussion and questions in the usual manner.

• 1110

Mr. C. A. Pollock (Past President, Canadian Manufacturers Association, Chairman, CMA Tariff Committee. President, Electrohome Industries Limited): Thank you, sir. Mr. Chairman and members of the Standing Committee on Finance, Trade and Economic Affairs, the CMA appreciates very much this opportunity to appear before you and, of course, we welcome the Committee's interest in matters of vital concern to Canada's manufacturing industry.

We recognize the Kennedy Round Agreement as the most important one of its kind in many years. Our submission to you reflects this and is the product of much thought on our part. As manufacturers we want to affirm our support of Canada's adherence to the Kennedy Round Agreement as a whole, even though we do have certain reservations about the way in which it is proposed to give effect to some of its provisions and, indeed, to go beyond this.

We find it disconcerting, for example, that Canada should have chosen to accelerate the speed of its tariff reductions beyond what is required by the terms of the Agreement. This action is contrary to what the United States

has done, and apart altogether from its impact on our trade prospects to individual Canadian industries, it hardly seems to be warranted by our international balance of payments position and by the government's adjustment assistance proposals.

We are very concerned, too, that the provisions of the new anti-dumping code shall be as effective as the old regulations in deterring foreign exporters from selling their goods here at prices well below those which prevail in their home market. Great injury could be done to Canadian industry if there is any unwarranted leniency in interpretation in this area, and we earnestly hope that the Committee look at this question most carefully.

Also, we have reached the conclusion that the Brussels nomenclature should be adopted as a whole by Canada as the ruling system of tariff clarifications for all goods imported into this country, and we hope the Committee will so recommend.

On another important point, we have made clear in our submission our opinion that while the Kennedy Round Agreement should contribute to an appreciable further increase in world trade, in many situations non-tariff barriers to trade are not likely to be less of an impediment in the future than they have been in the past. Developments of the past months have, we think, shown that our fears about possible unilateral action on the part of the United States to add to these non-tariff barriers were all too well founded.

As part of one of the great trading nations of the world, Canadian manufacturers are very conscious of the obligation resting upon them to produce quality goods at competitive prices for use both at home and abroad. We are very much alive to the dangers implicit in lagging productivity improvement, rising costs and falling profit margins in the Canadian economy. We seek no more than the opportunity to compete fairly with a foreign manufacturer and feel we are entitled to a national climate that will provide adequate incentive and encourage over-all industrial development. As an example of the stimulation to which we refer, there is a need for increased emphasis on research and development within our industries so vital to our future and, as well, to the future of the Canadian economy.

Mr. Chairman and gentlemen, thank you for the opportunity you have afforded us to enlarge upon the matters that we have submitted to you in our brief.

The Chairman: Thank you, Mr. Pollock. In line with our usual practice I will first ask officials of the various departments in attendance whether they have any preliminary comments. First is Dr. Annis from the Department of Finance.

Dr. C. A. Annis (Director, Economic Affairs Industry Tariffs and Trade, Department of Finance): Might I restrict my comments, Mr. Chairman, to what I think is the basic and most important point that Mr. Pollock has made concerning the Resolutions before the Committee, which is the proposal for accelerating the staging of some of our tariff reductions. As he has said the Resolutions, as they are now before the Committee, provide for introducing some of the concessions which were negotiated at Geneva more rapidly than the minimum requirements of the Agreement.

• 1115

In the light of his comments and in the light of what is said on page 4 and thereafter in the brief, possibly I should attempt to summarize briefly some of the reasons either for moving in a single stage as is done in respect of some products, mainly tropical products, or moving in a manner which some people have described as front-end loading, where the commitment is for a reduction of, say, 5 percentage points and the proposal is to introduce half of that reduction in the first step and then stage the remainder of the reduction.

In the first place I think I should say that there are a number of reasons for acceleration, depending upon the circumstances. In some cases only one of these reasons would be relevant and in some cases more than one might be relevant to the decision to speed up a particular reduction.

In brief, the various reasons, I think, could be summarized as follows: First, there is the regard for consumer interests. This is particularly important, or must particularly be taken into account in cases where the products concerned were non-competitive with Canadian production but not necessarily confined to such cases.

A second consideration that frequently was in mind was a regard for the interests of a less-developed-country supplier. This applies particularly in the case of certain tropical products and raw materials, but probably would not be relevant in many of the cases to which the CMA takes exception.

A third consideration was the concern for holding down production costs in Canada. This would be relevant in respect of raw materials and quite a number of intermediate products, or products which in other ways would enter into producers' costs.

A fourth consideration was that in some cases a single-step implementation of the entire cut that was provided for was required because it was part of a negotiated package that involved getting a release from a previous GATT commitment which affected another part of the package.

The important case in this regard is the machinery plan in respect of quite a range of machinery which is to be included in the new very broad item 42700-1 where there had been a previous binding at a rate of $7\frac{1}{2}$ per cent. We were seeking a release on that binding, and part of the deal was to introduce the new maximum of 15 per cent on the whole item at the same time that we got a release from the previous $7\frac{1}{2}$ per cent bindings.

Finally, and I think this probably is the consideration that would be most frequently relevant in the class of cases about which the CMA has reservations, there is the relation of some items to the machinery program. The most conspicuous cases would be such items as those related to bearings, forgings or electric motors or certain miscellaneous products of iron and steel or other metals which may frequently enter Canada in order to become components of a machine which, if imported—that is, if the complete machine were imported—would now enter at a rate of 15 per cent.

It was believed that if such items were staged evenly from present rates, of, say $22\frac{1}{2}$ per cent to 15 per cent or to $17\frac{1}{2}$ per cent, the effect would have been to get them rather badly out of line with the rate on finished machinery on which the effective MFN rate of duty was cut in a single step as of January 1 from $22\frac{1}{2}$ per cent to 15 per cent. If such items had been staged evenly they would have been dutiable right now at a rate of 21 per cent or $21\frac{1}{2}$ per cent, at a time when the finished machine would be dutiable at only 15 per cent. This would seem illogical; in fact it might be argued that logically the decision should have been to go straight to a rate of 15 per cent on such components. However, this certainly would have been quite a shock in certain cases, and what was done in effect was to adopt a compromise and to stage such reductions as if we had started off from a rate of 20 per cent. As I have mentioned, this

applies to quite a considerable range of metal products or machine parts where the former rate was $22\frac{1}{2}$ per cent.

• 1120

Before concluding possibly it would be fair to add that in respect of such products a rate of $22\frac{1}{2}$ per cent was a pretty high one and could be regarded as being rather out of line, on the high side, in relation to the rates that prevailed on quite a number of other products of approximately the same character and at the same stage of manufacturer. It would be possible to argue in respect of quite a few items that possibly a rate of 20 per cent would have been more appropriate than $22\frac{1}{2}$ in the past. I would not want to press that argument too far but I certainly have heard it used.

I think that I would restrict my comment to that, Mr. Chairman, if I may.

The Chairman: Thank you Dr. Annis. Mr. Burns, do you have any comments with respect to the responsibilities of your Department?

Mr. D. H. Burns (Acting Chief, Commodity Arrangements, Department of Trade and Commerce): Mr. Chairman, I would like to comment on one of Mr. Pollock's points which relates to non-tariff barriers. Certainly we would agree that the influence of non-tariff barriers is likely to become proportionately greater as tariff rates are reduced. In this sense the GATT Ministerial Meeting in November last year—and I think the Minister of Trade and Commerce referred to it in his testimony before this Committee—which was considering further work programs of an exploratory nature to prepare the ground for any possible future moves for the reduction of trade barriers recognized the importance of non-tariff barriers and it was agreed that governments would provide an inventory of such barriers to trade which they wished to include for detailed examination.

Mr. Chairman, we in the Department already have a fund of information on the influence of non-tariff barriers abroad on our exports, but to ensure that what we have is as complete and up-to-date as possible I understand that the Minister of Trade and Commerce will be writing shortly to the principal trade associations in Canada and to Canadian exporters requesting detailed and up-to-date information on the particular non-tariff barriers which face their exports

abroad. We are hopeful that the business community in Canada will respond fully and in as detailed a manner as possible to this request for further information which will enable us to be as helpful as we can in dealing with this question in the GATT context.

The Chairman: We have heard from the Department of Trade and Commerce and we now will have the preliminary comments from the Department of Industry.

Mr. L. F. B. Drahotsky (Chief, Commercial Policy Division, Department of Industry): Thank you, Mr. Chairman. I should like to comment on the observation which appears in the middle of page 5 of the Association's submission, which projects that the inclusion of accessories, attachments, control equipment, and tools within the ambit of machinery item 42700-1 is likely to cause serious difficulties in tariff administration and delay in the granting of duty remissions. Members of the Committee might be interested in knowing what our experience has been so far in this regard. I have been in touch with the Machinery Branch this morning and I am told that so far we have encountered no difficulties whatsoever in administering this provision and that there have been no delays in the granting of the remissions because of it. Thank you, Mr. Chairman.

• 1125

The Chairman: We now have with us Mr. Halvorson of the Department of National Revenue. This is Mr. Halvorson's first official appearance although he has been following our proceedings very closely and consulting with other departments. I believe you wanted to make a comment on this brief.

Mr. A. H. Halvorson, (Appraisers Branch, Department of National Revenue): Yes, Mr. Chairman. My comment is really tied in with Mr. Drahotsky's comment but only with respect to the point on page 5, paragraph 2, referring to serious difficulties in tariff administration. If we think of this as referring to classification difficulties, we feel that the new item does not present difficulties any greater than those which existed in the various machinery items which have been deleted. In fact we now have one quite large basket item for machines instead of 18 or so smaller baskets and we feel that classification itself will be simplified, especially since the distinction as to class or kind has now disappeared.

The Chairman: Thank you, Mr. Halvorson. If Association members have an immediate reply to the comments made by the officials we will be glad to hear from you; if not, we will invite questions and comments from the members and you can include in your replies, if you prefer, any thoughts you may have on what the officials have said.

Mr. Pollock: I think some of the members might like to reply, Mr. Chairman.

The Chairman: Then would you proceed with any immediate comments you may have in reply to the remarks of the officials?

Mr. Archibald Johnston (Manager, Corporate Planning and Service, Canadian General Electric Company Limited): Mr. Chairman, I would like to comment on the reasons for the accelerated staging, which we feel has had a very direct impact on our industry. Although the reasons which have been given for acceleration of the staging seem sound there are a couple of points I would like to make that relate to these reasons.

In looking at 42700-1, which is the reference to the negotiated package and the reference to the machinery plan, I note that included in there is a large number of electrical appliances, including such things as hair dryers, tooth brushes, blenders, portable mixers, dishwashers, humidifiers, dehumidifiers, air conditioners, and so on. We feel that these should have been negotiated out of this because it is an absurdity. Other kinds of appliances used by the housewife are not classified in this manner and I think there must be some common sense with respect to classifications. I recognize that maybe this is a package of dollars but why could it not have been negotiated out? It really is not production machinery. The point already has been made at the hearings here a few days ago that our trading partners, particularly the U.S.A., is interpreting this particular classification in the light of it being production machinery, and we do not see these other kinds of appliances as production machinery.

• 1130

With respect to the reduction of the front-end loading referred to in the accelerated staging of the tariff reductions, which goes further than Canada had to go under the GATT Agreement, we recognize there is a consumer interest in the products which are non-competitive with Canadian products and

we recognize this regard for suppliers in less developed countries. However, I think we should recognize that this rapid reduction has put an undue weight on Canadian manufacturers, particularly in some industries where products are included which are comparable to Canadian-made products. This does not give the Canadian manufacturer an opportunity to adjust. He can adjust in steps, but he cannot adjust in this rapid manner.

If the question of concern for production costs in Canada pertained strictly to raw materials and components, which are imported and which are non-competitive Canadian components, we would be inclined to agree. However, in reviewing previous proceedings of this Committee I was concerned about the fact that one of the reasons given was concern for production costs in terms of efficiency within Canadian manufacturers' establishments. In our opinion, and this is valid from an economic sense, the setting of a tariff has nothing to do with production efficiencies or production costs. In our opinion the setting of tariffs at the level at which they are set is a matter of national policy.

Let me use an extreme example. If it were in the national interest for Canada to grow oranges, we could grow oranges. This has nothing to do with how efficiently oranges could be produced, but if it were in the national interest it could be done. That is the reason I say the setting of tariffs has to do with national policy. We are concerned about the philosophy that the setting of tariffs is connected with making the manufacturer sharpen his pencil. Our pencils are sharp, and if you look at the profits of the Canadian manufacturers in general you will find they are very low. I have no further comment.

The Chairman: If you have no further comment on the reply from the Association, I would now ask members of the Committee who wish to ask questions or make comments to signify in the usual way. Mr. Clermont, Mr. Macdonald, Mr. Hales and Mr. Gilbert are now on my list.

[Translation]

I now give the floor to Mr. Clermont.

Mr. Clermont: Mr. Chairman, Mr. Pollock in his comments mentioned that certain events recently have made concrete his company's fears with regard to non-tariff barriers concerning competition with Canadian products on the domestic market and with

our exports. Could he be specific about some of these events?

[English]

The Chairman: Mr. Pollock, if you wish you may refer questions to your colleagues.

Mr. Pollock: Thank you.

Mr. Johnston: Let me be specific, Mr. Chairman, about some of the kinds of non-tariff barriers that can be met by Canadian manufacturers. I would like to use the electrical industry as an example of the kind of thing we run up against in this industry. I would like to use the United Kingdom as a specific example. In the production of heavy goods there, namely, power generation equipment and power transmission equipment, we are not given the opportunity to bid in the United Kingdom, because of non-tariff barriers which have been put up by the Central Electricity Generating Board, which is an arm of the British government. They simply refuse to give us specifications to bid on. In 1963 we were given the opportunity to bid on a large power transformer and its associated equipment. We bid at 5 per cent above the prices which were bid in this country by the manufacturers of that equipment from the United Kingdom.

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When this equipment was sold in the United Kingdom we were accused of dumping. Since that time, in spite of repeated requests to be allowed to bid on orders for power generation and power transmission equipment, we have been refused. In that connection, a week and a half ago we received a letter from the Chairman of the Central Electricity Generating Board, Mr. F. H. S. Brown, C.B.E., refusing us the opportunity to quote again. This letter referred back to previous letters in which they had said that we could not meet their specifications. This industry can meet the specifications in England, as we have already proved on one order.

There are other matters referred to, but on that point I would like to read what the Select Committee of the House of Commons in the United Kingdom had to say about the electrical supply industry in Britain. This was published in 1963 and there has been no

change in the market in Britain to indicate they have changed their minds. It reads:

"There is so far no evidence that the purchasing of electrical equipment in Europe by our own nationalized electricity industry will be met by comparable opportunity in the other direction. Only in France is the supply industry completely under public ownership and we have no evidence of any major purchases by the Electricite de France outside France. The Italian supply industry is in the throes of being nationalized but in Western Germany, Belgium and Holland the supply industry is a mixture of public ownership and private enterprise, the latter in many instances having financial and other links with the electrical manufacturers.

"The evidence confirms that the Central Electricity Generating Board should accept responsibility for helping British electrical manufacturers compete in the export market.

"Whatever other justification may be claimed, it is clear that a development in the use of monopoly purchasing power to depress prices in the home market will damage export prospects. A distribution of orders leaving large blocks of British manufacturing capacity unused, would inevitably result in serious damage to export business.

"The position of the heavy electrical equipment industry in the national economy with its important role in exports and the dependence of the electrical supply industry on technical developments by the manufacturers, point to the need for a pattern of relationship to be worked out between the Central Electricity Generating Board and the manufacturers."

Gentlemen and members of the Committee, in addition to the Central Electricity Generating Board carrying out this kind of a policy, it has an agreement—we have concrete evidence of an agreement with the power switch gear manufacturers in Great Britain—to place orders with four of the manufacturers there. Today there are only four manufacturers left in the switch gear industry, which guarantees a 16½ per cent return on investment on a turnover of once on the investment, which is 16½ per cent of the manufacturers' sales. It allows them to absorb certain discreet kinds of costs against domestic business which are incurred on behalf of export business, and

they are then guaranteed this 16½ per cent on these kinds of costs. This enables the British manufacturer to come into an open market such as we have in Canada, where the utility gives specifications to anyone who requests a bid, and this is the kind of dumping we get; but we are not competing in the world market on the same rules.

The United Kingdom is just one example. There are others. I am sure that Mr. Burns, who said they had a catalogue of some of these in the Department of Trade and Commerce, could elaborate.

• 1140

Sweden is another one. In Sweden the Wallenberg family, through the Enskilda Bank, controls about 16 per cent of Sweden's gross national product. Through this holding trust they control utilities, telephone companies, transport companies, electrical manufacturing companies, and so on. The Wallenbergs do not reign; they rule. They tell people right down through the organization where business goes.

These are some of the specifics that we know about.

Mr. Macdonald (Rosedale): That is the great socialist state of Sweden?

Mr. Johnston: That is correct; the great socialist state of Sweden?

Mr. Pollock: Mr. Chairman, Mr. Terrell has had a great deal of experience in the export field and would like to speak to this point, as well.

Mr. C. F. Terrell (Chairman, CMA Export Trade Committee; Vice-President & General Manager, Export Division, The Canadian Coleman Company Limited): Gentlemen, there is a multitude of so-called non-tariff barriers to the exporter of smaller products. I am thinking of consumer goods. Frequently the barrier is raised because of what might be called lack of dollars, or foreign exchange difficulties.

As one example; we were doing a considerable business in Columbia. Suddenly our products were on the embargo list. At that time we had a joint venture in Mexico manufacturing the same product. The importers were able to obtain import licences from their government for that product from Mexico. We thought that this was because of LAFTA; that the dollar was the problem, and because they

had no dollars they could buy from Mexico. Lo and behold, they paid Mexico in United States dollars. Therefore, the United States dollar was not the problem.

Another type of barrier against us is where the importer must deposit a certain percentage of the c.i.f. value. This percentage can vary anywhere from 20 per cent to 200 per cent; and that deposit by the importer stays in the hands of the government for periods of up to six months after the goods are imported. When the goods are imported he must, of course, pay the duties and he must pay his draft for the merchandise, but the government has use of those funds. If there is a bilateral or regional agreement of neighbours that prior deposit would not apply on imports from within the area.

As I say, there is a multitude of them, and some of them are real impediments and cause our export products to land at higher prices than they need to be.

Mr. R. Lang (Manager, Tariff Department, Canadian Manufacturers Association): Mr. Chairman, we welcome the announcement by Mr. Burns that the government is seeking up-to-date information in this field of non-tariff barriers. When the Canadian Tariffs and Trade Committee was established back in 1964, at the start of the Kennedy Round, we went to some lengths to list a number of these non-tariff barriers in various countries. We would be glad to bring that information up to date and submit it in the usual way.

[Translation]

The Chairman: I think that before returning the floor to Mr. Clermont, I should tell you that the Committee has been in official session for several minutes.

Mr. Clermont: In its brief, the CMA attaches much importance to more active growth of productivity on the part of Canadian industry to enable this industry to benefit from broader markets following the Kennedy Round agreements. The Association says in its brief that there should be close co-operation between industry, labour and the government.

My question is this: what does Canadian industry intend to do in its sector to improve productivity?

[English]

Mr. Pollock: Mr. Chairman, the manufacturing industry in Canada has had a great deal of experience in producing many, many

products, both natural resource products and those in the manufacturing field. The manufacturers have endeavoured to evolve new methods and new ways and means, but what is really needed in this country is more research, not only into the products themselves and the materials, but also into the methods that are employed. The opportunity which the manufacturers will have of serving larger markets will, we hope, help volume production, and that, of course, should be of assistance.

• 1145

Mr. Chairman, we feel that all of these matters will, over the years, definitely improve the productivity of Canadian manufacturers. In many cases we have a very competitive industry.

I would like to speak for just a moment to Mr. Annis' comment on the competition in Canada.

In the television manufacturing business there are nine companies producing television sets in Canada for a market of 20 million people. This is one company to 2,200,000 of population. In the United States there are approximately 25 manufacturers, or one manufacturer to 8 million people. These circumstances present a wonderful opportunity for the Canadian manufacturer to ship to other areas, but it is going to take a long time to improve his position on the various markets, particularly the consumer markets. It is not just a matter of shipping job lots of products; it is a matter of developing a distribution system in those countries.

Canadian manufacturers will be working, and working energetically, in all these areas, but it is important that we have an opportunity to serve our own Canadian market because this is where the basic operations of our industry must be carried out.

[Translation]

Mr. Clermont: Mr. Chairman, Mr. Pollock mentioned at the beginning of his comments that more research is needed to increase productivity. I notice on page 16 of their brief that from 1965 to 1966, 30,000 applications for patents were registered in Ottawa; only about 1,000 of these were signed by inventors living in this country. Do you not think that 1,000 out of 30,000 reflects too much dependence on outside research? My second question concerns research. Mr. Pollock, where do these patents come from mostly: the United States, France, Great Britain, Germany?

[English]

Mr. Pollock: The patents do come largely from the United States. This, of course, is one of the major problems in Canadian industry. We do not do enough research work for our own activities. Under these circumstances patents do not result. If more work was done on creating products in Canadian industry we would have more patents. This, to us, is a very important point and is why we are very happy to have the research and development incentive and the other incentives which the Department of Industry is presently operating. Under these circumstances we feel sure that our position will improve; but it will take time.

[Translation]

Mr. Clermont: Mr. Chairman, the last question concerns comments on page 20 respecting the new international code on anti-dumping policies to which Canada contributed according to the terms of the Kennedy Round and which will result in much more tolerant anti-dumping procedures than in the past.

You apprehensions, Mr. Pollock, are those of other organizations who have appeared before this committee, and I am wondering if there is any possibility to having the comments of the officials of the various departments here today with regard to these fears expressed by the C.M.A. and other groups who have appeared before this committee. We appear to be unanimous about our fears on this new code to which Canada is one of the signatories with regard to anti-dumping legislation. It seems that they are going to be more generous for Canada's competitors.

• 1150

The Chairman: I think I will ask Mr. Annis to answer your question but possibly we should remember that we do not have before us the legislation itself, which will be the result of negotiations on the anti-dumping code. I do not think it is possible for Dr. Annis to do anything but make general comments on this.

Mr. Clermont: Mr. Chairman, inasmuch as Mr. Grey (not the Chairman of our Committee, but another Mr. Grey attached to the Department of Finance) looks after this new anti-dumping law could the representatives of the C.M.A. have other comments apart from those brought out in their brief respecting the new anti-dumping code.

The Chairman: First of all I should ask Dr. Annis whether he could clarify this situation on the anti-dumping laws for our Canadian manufacturers.

[English]

Do you have any general comments? I realize the difficulties we face because the Canadian legislation, I understand, is still in the process of preparation.

Dr. Annis: You are correct in that, sir. The legislation is now being drafted by officials including the legal experts. While I have some knowledge in a general way of what they are doing, my knowledge is not sufficiently comprehensive that I would feel qualified to comment on this. I had thought, and I think other officials had assumed, that the Committee would be content to wait until the draft legislation had been presented to Parliament before pursuing the matter in detail.

My own view is that that would be the best way to proceed. If it should be the view of the Committee that it is not and you wanted to pursue it further at this time I would really suggest that Mr. Rodney Grey be recalled, but I think his view as well as mine would be that it would be more productive to defer that until you had a draft bill before you.

The Chairman: The Committee will recall that, strictly speaking, the anti-dumping Code as such has not been referred to us by the House of Commons for study and we are looking at it even in the way we are because of a rather broad interpretation I have been placing up until now on our terms of reference. It may be that some other members of the Committee may object to our attempting to pursue in detail what, so far as its Canadian manifestation is concerned, has not actually taken a complete form even in a preliminary sense. While I think we could perform a useful task by familiarizing ourselves with the terms of the international code on anti-dumping and also giving both the officials and interested public groups a chance to place their views and concern for that matter on record at this time perhaps, if I may express my own opinion, the most effective thing we can do is to try to take steps to see that the House refers the draft bill to us once it actually has been prepared by the officials.

I think we are all in agreement; this is a most important matter but we may have some concern about whether we are really in

a position to direct ourselves as completely as we should to the essence of the problem if the legislation is not completely drafted. At the same time, before we move on, if witnesses who have a particular interest in this matter have anything to say to supplement what is contained in their brief on this topic I think we should hear them.

Mr. Lang: Mr. Chairman, I might say that certainly the question of anti-dumping legislation is a matter of deep concern to Canadian manufacturers and the uncertainty about what the legislation is going to mean for Canadian industry really is the question, and I think it would be desirable if we could have a future opportunity to come to a committee of this kind to discuss its implications after we see exactly how the new legislation is going to be worded.

• 1155

The Chairman: Do you agree with my suggestion that the implications will depend largely on the actual words in the draft legislation?

Mr. Lang: We think it is more intelligent to discuss something that you see in front of you in black and white than it is to discuss a broad code to which Canada has subscribed. I think our concern primarily is that the present anti-dumping legislation is a special, unique type of legislation drafted because of our proximity to the United States which has been in effect for some 60 years.

All of a sudden, shall we say, we throw the book out of the window and start using a new book with all its changing phraseology, wording, administrative procedures and its enforcement. These are all tied up together and certainly we would hope to have the opportunity of saying something more specific than we did to the special government committee where we were dealing purely with the international code which is expressed in rather broad general terms.

It has some pluses that we can see and it has some minuses, but we do have a law now which is an effective deterrent to dumping and certainly we are hopeful that the new legislation will be a similar deterrent.

[Translation]

The Chairman: Mr. Clermont, would you concede the floor to Mr. Hees for a supplementary question?

Mr. Clermont: Very well.

[English]

Mr. Hees: Mr. Chairman, having seen the preparation of legislation both from the point of view of the Opposition and the point of view of having been a minister responsible, it has been my experience at all times that if you wait until legislation appears even in draft form, ministers and government officials always feel they have a vested interest in what they have written and presented and demonstrate a great reluctance towards change, and I say that not just regarding this government, I say it of all governments.

For that reason, at least from what I can see, the anti-dumping measure may be of greater significance than these tariff reductions in making economic life very difficult for Canadian producers. I seriously suggest that we consider this matter of dumping along with the tariff changes we are discussing because I think it is going to be even more important.

The anti-dumping legislation that was presented to GATT certainly is the legislation the Canadian government has been asked to consider and agree to or reject. It seems that probably we are going to agree to it because it is a *fait accompli*. How do you see this anti-dumping legislation affecting Canadian producers, particularly with regard to what worries me a great deal, and that is first free dump?

This seems to be a very worrisome thing. As I understand it foreign manufacturers are allowed one free dump by which they can land in this country fantastically large quantities of goods which could cause a great deal of difficulty not only for that producer but a whole industry. What is your opinion of that?

Mr. Pollock: Mr. Chairman, we certainly agree with Mr. Hees' idea that this country is very vulnerable, and manufacturers in this country are very vulnerable, to dumping from the United States. As a matter of fact, in our opinion perhaps no country in the trading world is as vulnerable as Canada because of the fact that the products produced in the United States in particular are similar in styling and function to the products produced in Canada, and under those circumstances there will be every opportunity for these products to be dumped onto the Canadian market.

• 1200

The American market is so large that producers in the United States sometimes find

themselves in the position of over-estimating the sales they can make, and this happens in any private enterprise operation, but because of the very large industrial and commercial activities in the United States this is perhaps more likely to happen there than in other countries.

Under these circumstances it is our feeling there could be a lot of product dumped on the Canadian market in job lots with no attempt whatsoever to produce a distributing organization in Canada. Manufacturers in Canada endeavour to produce a distributing organization that can carry on over a period of years, whereas a dumping operation is a matter of a certain amount of product. As Mr. Hees said only the first dump can be allowed. Products can be dumped in batches to large outlets by the retailing outlets and under these circumstances with our small market, a great deal of damage can be done to Canadian industry.

There will also be the problem of proving injury or threat of injury. We feel all of this will have to be carefully spelled out. Mr. Lang, would you speak further to this?

Mr. R. Lang (Manager, Tariff Department, Canadian Manufacturers' Association): I might add that we have to look at this from two different standpoints. There is the short term, the transitional period between the present law and the new law. Presumably the new law is expected to go into effect on July 1, but what do you do in cases which are pending and on which decisions have not as yet been taken? Under the new law we have to show injury; not merely injury to one producer but to a whole industry. While the criteria or evidence that is necessary to support a case of injury is spelled out in broad terms in the code, it is very difficult to determine how the new board, which presumably will be established to determine when injury takes place, will look at loss in Canadian sales and employment. These are the two important factors which in our opinion obviously warrant a decision on injury.

Admittedly until now we have had very little to do in respect of presenting evidence to the Department of National Revenue on a complaint. It was filed, it was looked into and if the foreign exporter was selling to Canada below his domestic price and the goods were of a class or kind made in Canada it was inferred that that dumping had caused injury to Canadian producers and a decision on dumping then took place. That was the fashion in which it was administered. Presumably

dumping will not be applied automatically as it has been in the past, and it will be necessary for industry to prove its case. To what extent it will be necessary to prove that case we are not too sure at this time. Our greatest concern today is the uncertainty we are up against.

The Chairman: Mr. Hees, I think you are on the list for questions later on.

Mr. Hees: I did not want to ask one. I know there are quite a few people ahead of me.

The Chairman: One of the gentlemen wants to supplement the reply he gave to you and then we will return to Mr. Clermont.

Mr. Johnston: I wish to supplement the answer to Mr. Hees.

I would like to remind the Committee, Mr. Chairman, that the question of anti-dumping legislation is very complex. What we have been talking about in our comments so far is a shelf-goods or a consumer-goods type of product where there is a catalogue price, and so on. There is another complicating factor in this when you get into the heavy goods industry, such as heavy machinery in the power generation and power transmission equipment industry. These goods are built to customer's specification. There is no way of proving a price in the foreign country of export and there is difficulty in determining what a dump price is. We have made recommendations on what we think the definition should be of a dump price in Canada. It is a price which is low in relation to the costs for domestic producers of this country. Our costs are comparative in the power transmission business and we want to get through this area of determining the price and get into the injury area. There is no difficulty in determining injuries.

• 1205

There is one other question with respect to anti-dumping legislation which I think the legislators must take cognizance of, and that is the definition of when goods enter the commerce or trade of the country. In the case of shelf goods, this is easy. It is when they are shipped into the country. In the case of heavy equipment, which can take anywhere from a year to five years to build, depending on what it is, when does it enter the commerce of the country? At the time it is imported in its physical form? If that is the case an industry can be destroyed in the intervening period. These are the kinds of complex problems

with which the legislators and the framers of the legislation must wrestle if the interests of Canada are going to be looked after in this transitional period of the implementation of the Kennedy Round agreements. Thank you.

The Chairman: Thank you, Mr. Johnston.

Mr. D. S. Macdonald (Rosedale): I have a supplementary question, Mr. Chairman, which, perhaps, the group as a whole can answer. Since this international code—this multilateral international agreement—is coming into force, surely the Canadian Manufacturers' Association is not suggesting that Canada should not honour this obligation and should write its own rules and not participate in the obligation? While you may be worried about having to show injury, and so on, the fact remains that those are the international rules and surely Canada should abide by them.

Mr. Hees: In other words, you mean we should take a beating just because someone was foolish enough to agree to something to which they should not have agreed?

Mr. Macdonald (Rosedale): No. That is nonsense, Mr. Hees.

Mr. Hees: Well then, what...

Mr. Macdonald (Rosedale): Mr. Chairman, I think perhaps I can ask questions without these boy scout interruptions.

Mr. Monteith: Who is the boy scout?

Mr. Macdonald (Rosedale): Mr. Chairman, the fact is that with the dumping code we have an international code accepted by our larger trading partners. Is the Canadian Manufacturers' Association suggesting that we should go it alone in the international field and should not participate within GATT in this agreement?

Mr. Johnston: Nobody has suggested, Mr. Chairman, that we ignore our international obligations under GATT. We are suggesting that through our legislation and within the framework of GATT we must find ways of protecting ourselves, particularly where our trading partners have other sets of rules which prevent us from competing in their countries.

If we could compete in Great Britain, for example, we would not have much difficulty with low U.K. dumping prices in this country on the heavy equipment business. This might also be true in the consumer goods industry.

Another thing we should recognize is that we must have a very firm domestic base from which to operate if we are going to go into the export field. Basically we have a sound industry in this country right across the whole piece. The Canadian manufacturers' productivity is good. If you look at our productivity in relation to the kinds of productivity that are enjoyed or achieved in other countries of this size with economies equivalent to ours you will find we outstrip them from a productivity standpoint. We too often compare ourselves to the U.S., which has a large market which would be very costly for us to invade. I doubt that there is a company in Canada which could invade it successfully, take a really significant portion of it and achieve the same costs as an equivalent American manufacturer.

Mr. Macdonald (Rosedale): From the observations on page 12 and subsequent pages of your brief...

The Chairman: Mr. Macdonald, I think you are supposed to follow Mr. Clermont, who has been more than patient.

Mr. Macdonald (Rosedale): Mr. Hees seemed to have gotten in there...

Mr. Hees: I just asked a perfectly logical question. Of course I can quite understand if you are embarrassed by the question.

Mr. Macdonald (Rosedale): I would like the opportunity to ask my questions in order, Mr. Chairman.

Mr. Hees: You can ask me any question you want at any time and I will be glad to give you the very best advice.

Mr. Macdonald (Rosedale): I ask questions expecting to get information; therefore I will not ask you any questions.

The Chairman: Now that we have had this interesting exchange, perhaps we can return the floor to Mr. Clermont.

Mr. Monteith: Mr. Chairman, on a point of order. I feel Mr. Macdonald has interjected a note into these Committee hearings which we really have not had before. I thought we were trying to gain information rather than to insult each other.

Mr. Hees: So did I. I am really rather hurt about the whole thing.

The Chairman: Perhaps Mr. Macdonald and Mr. Hees...

Mr. Hees: We can square off outside.

The Chairman: ... can work out the matter of personal injury according to the terms of the anti-dumping code, some existing code or some new code that we have around here.

• 1210

[Translation]

Mr. Clermont: Mr. Chairman, since when have the present anti-dumping policies appeared in our statutes or in our legislation?

[English]

Dr. Annis: Canada introduced an anti-dumping provision in 1904 and this has been amended subsequently in detail, but the broad outlines have been unchanged since 1904.

Mr. Clermont: When was the last amendment, Dr. Annis?

Dr. Annis: The last major amendment?

Mr. Clermont: Yes, that is what I meant.

Dr. Annis: I would have been in 1936, following the Canada-United States trade agreements of that year.

Mr. Clermont: There were none between 1957 and 1963?

Mr. Monteith: Yes, there were.

Dr. Annis: Since then there have been some amendments to the Customs Tariff Act relating to devaluation that were quite important.

Mr. Clermont: I asked because some remarks were made against Mr. Macdonald, but I think in some instances they were brought up by the remarks of Mr. Hees. I have concluded my questioning, Mr. Chairman.

The Chairman: Mr. Macdonald?

Mr. Macdonald (Rosedale): Mr. Pollock, you referred with commendation to the Department of Industry's research and development incentives. Do you have any additional suggestions for incentives to research and development for Canadian industry?

Mr. Pollock: No, we have no further ideas along this line. We feel the ideas presently being carried out are very successful. There is, of course, the question whether it should be done by way of grants or whether it should be done by way of a reduction from a

tax point of view, as was the case prior to the recent change. However, we feel that the research and development needed in this country has been stimulated by these provisions and certainly this should continue because creativity is the most important single factor in the development of Canadian industry in competition with the export market and in competition on the domestic market.

Mr. Macdonald (Rosedale): Mr. Pollock, I do not know if you would feel inhibited in answering from your own experience in this regard, but with respect to exports to the United States do you find that your exports are subject to administrative harassment when they go into the American market?

Mr. Pollock: Not in particular, no. We have been shipping into the United States market and latterly some of the problems we formerly encountered have been resolved. At one time it was common practice, if you shipped from Vancouver, that you got one rate or one interpretation. If you shipped through Detroit you got another and if you shipped through Buffalo you got still another, but latterly a lot of this practice has been resolved. As far as we are concerned our operation in the United States has developed reasonably well, although certainly not in the way we hoped it would. I can assure you from the point of view of a consumer product that it is very difficult to sell into the American market. The economists readily feel that it should be easy for Canadians to supply their products to the American market but it does not work this way because the competition in the United States at the present time is very keen. As I suggested a moment ago, there are 25 manufacturers in the United States that produce television sets, and we have found to try and interject television sets from Canada into that market in a normal distribution manner is a tremendously difficult proposition.

Mr. Macdonald (Rosedale): The problem of having to go through a customs barrier is only a marginal addition to your problem, it is not a major stumbling block?

Mr. Pollock: This is right.

Mr. Macdonald (Rosedale): Yes.

Mr. Pollock: I would like to tell a little story and I would like to direct it particularly to Dr. Annis, because we sometimes hear economists make the statement that free trade between Canada and the United States would

be a good thing. Economists point out that Canadians would have a market of 200 million people to serve while the Americans, on the other hand would have a market of only 20 million people. Under those circumstances it would be very much to the advantage of the Canadian producer to enter the American market. In the same vein, I would like to refer to the story of the young lad whose parents gave him a very large St. Bernard dog for his birthday. This little fellow was rather small in stature and the St. Bernard was rather large. The little fellow looked at the dog, then looked at his father, and said, "Is he for me or am I for him?"

• 1215

Mr. Macdonald (Rosedale): I wonder Mr. Chairman, if I can pursue the examples. We were talking about the activities of the British Central Electricity Generating Board and also the Swedish entity, and perhaps this question is directed to both the representatives of the association and to Dr. Annis. Have those activities you have been complaining to us about been the subject matter of any complaint to the government by Canada or by yourself under Article XVII of the general agreement?

Mr. Johnston: The complaint to the...

Mr. Macdonald (Rosedale): Article XVII of the general agreement relates to the activities of state trading enterprises and I wondered if you had taken the matter up?

Mr. Johnston: These matters have been discussed with people in the departments at Ottawa.

Mr. Macdonald (Rosedale): I see.

Mr. Johnston: And they were pointed out to Mr. Grey by my company prior to the last set of negotiations in Geneva. We pointed this out to him about a year ago.

Mr. Macdonald (Rosedale): In speaking of the potential you mentioned the names of various individuals on the British board in particular. Have you discussed this with them in relation to Britain's GATT obligations?

Mr. Johnston: Have we discussed this with these individuals?

Mr. Macdonald (Rosedale): Yes?

Mr. Johnston: No, not in relation to the GATT obligations.

Mr. Macdonald (Rosedale): Dr. Annis, to what extent is Article XVII of effective assistance here?

Dr. Annis: Rather than answering your question directly...

Mr. Macdonald (Rosedale): Yes.

Dr. Annis: ...I was going to refer to the fact that Canadian officials and ministers have from time to time discussed bilaterally problems of this sort with the British. It seems to me that Mr. Burns is in a better position than I am to comment on those discussions.

The Chairman: Mr. Burns?

Mr. Burns: Mr. Chairman, if I might just briefly add a thought to the discussion, I can confirm with Dr. Annis that in fact there have been discussions with the United Kingdom regarding the matter of government procurement. This is a question, Mr. Chairman, which you will appreciate is also of interest to the United Kingdom in connection with exports to Canada, so that it is in a sense a two-way street. However, in making that comment, of course, I would not want to detract from what Mr. Johnston said in relation to the particular example which he brought before us and which is not duplicated in Canada. Unfortunately not much progress has been made in this rather complex and difficult field.

The Chairman: Mr. Macdonald?

Mr. Macdonald (Rosedale): Referring to page 8 of the brief and to some of the non-tariff barriers to trade, I wonder if you would indicate the distinction between normal consular procedures and documentation, certification of export documents and notarizations. How does the problem differ in each case? It seems to me that it is really all a problem of documentation, is it not?

Mr. Lang: I might mention here that a number of Latin American and Middle East countries require all export documents to be certified by a chamber of commerce or a board of trade, and we operate in this fashion. This means in essence that every export document must be brought down to our office. We must have them swear an oath that the prices are their regular domestic prices and that these are actual export prices, et cetera. This is another expensive area which we feel is unwarranted under today's commercial conditions.

Mr. Macdonald (Rosedale): Is notarization basically the same thing?

Mr. Lang: To some extent, yes.

• 1220

Mr. Terrell: Mr. Chairman, further to that particular question, may I say that not only do we sometimes have to have our documents certified by a chamber of commerce or the CMA—and those documents are usually in English—but frequently they must be submitted to the consul or the consulate with another set of documents in their language, whether it be Spanish, German or whatever, and if the “i” is not dotted or the “t” not crossed, they are rejected. You must make up another set of documents and these costs—which range from \$5 to \$10 per set—plus another fee for the legalization add to the, shall I say, “penalty of exporting”. There are also countries that insist that the goods which are covered by these different consular declarations—where they apply—be packed separately and this imposes another non-tariff burden on the exporter and adds significantly to the cost of exports.

Mr. Macdonald (Rosedale): Under what circumstances do you run into a prior import deposit?

Mr. Terrell: Well, an importer in Chile or Columbia, to name two countries, as I mentioned earlier has to put up anywhere from 20 to 200 per cent of the c.i.f. value of the merchandise as a deposit with the government. That deposit lies with the government for various periods up to, say, six months. In addition to having that money tied up in the way of a deposit, upon arrival of the goods he must pay the duties, taxes, and possibly for the merchandise depending on the exporter's terms of payment.

Mr. Macdonald (Rosedale): I take it that the special import assessments you were speaking of is something like the tariff surcharge program we had or the British have had recently for balance of payments reasons.

Mr. Terrell: Yes, some countries have a surtax on all imports or on special types of imports.

Mr. Macdonald (Rosedale): What do you have in mind specifically with regard to political embargoes?

Mr. Terrell: Well, let us look at the Middle East. There are certain products that we cannot ship to the Middle East because they are

made by a firm or by a country that is on their so-called blacklist.

Mr. Macdonald (Rosedale): It is on the Arab League list?

Mr. Terrell: Yes.

Mr. Macdonald (Rosedale): Are very many Canadian products subject to that kind of restriction—and I am thinking specifically of the Middle East.

Mr. Terrell: Coca Cola is the most noted.

Mr. Macdonald (Rosedale): How do Fords stand at the moment, are they in or out?

Mr. Terrell: I think they are out.

Mr. Macdonald (Rosedale): Thank you, Mr. Chairman.

The Chairman: I will recognize Mr. Hales.

Mr. Hales: Mr. Chairman, my questions have to do with classification. I was amazed to learn from this brief that under the heading of imported machinery we had such things as hairdryers, electrical appliances and humidifiers. It is very difficult for me to understand why this basket arrangement would include such a conglomeration of machinery. I would like to ask Dr. Annis why this was done, and also why Canada has not improved her classification along the lines of the Brussels arrangement similar to what the chemical people have done. We are told that 75 countries in the world have used the Brussels' system of nomenclature. Why is Canada not within this group of countries?

Dr. Annis: I am not sure that I can give very good answers to all of those questions but I might say something at least about the two most important of them.

First, as to the classification under the general machinery item, or in the past items, of such articles as hairdryers, humidifiers, dehumidifiers, air conditioning units, and so on: This arises from the fact that as no special provision had been made for those products on an *eo nomine* basis such as is done for refrigerators, certain electric irons, or some other articles which are named, they in effect need to seek a basket classification. For many many years there has been in the tariff very broad items relating to machinery, and continuously since 1935 they have, in effect, been divided into two parts: one providing for machinery of a class or kind not made in Canada and one for machinery of a class or

kind made in Canada and providing for differential rates. Those rates have been changed from time to time but in recent years they have been 22½ per cent on the basic item in respect of machinery of a class made in Canada and 7½ per cent on that of a class or kind not made in Canada.

• 1225

I suppose there may have been a cultural lag here. In a sense, it may be that such items as have been referred to were not taken out of the basket category because no one strongly urged until now that they be taken out. There has seldom been any dispute about the propriety of their being maintained there. There are very few Tariff Board cases relating to this, and in the few instances in which the Tariff Board guidance has been provided it has been in the direction of confirming the practice of the Department of National Revenue in classifying the products in question under that basket category. Direct cases are very rare. A long way back, in prewar days, there was a case on an electric fan and the Tariff Board confirmed that it was properly classified as machinery not otherwise provided for. There have been practically no cases since then directly related to the kind of article to which Dr. Pollock has referred.

There is, however, a Tariff Board decision—no doubt Mr. Halvorson has it in his briefcase—which provided guidance. The general purport of that was to say that articles that had moving parts which were driven by power were machines. A hairdryer, an electric fan, a humidifier, an air conditioner could meet that test, and on any occasion when the question has been raised there has not been much doubt about the correctness of the practice of the Department of National Revenue as far as their classification is concerned.

Now, your second question I suppose really raises a different issue: Why has someone not...

Mr. Hales: Reclassified.

Dr. Annis: Well, not "reclassified." If the Department of National Revenue had reclassified them I think it is predictable that some interested party would have appealed their decision to the Tariff Board and the Department of National Revenue would have been reversed. If a change were to be made it would have involved a change in the legislation creating a new item or items to cover these goods, and Parliament in its wisdom never got around to that. I think probably

that question is worth facing. If the decision were made that it was desirable to do it now one must recognize that certain commitments exist. Certain commitments exist right now as a result of the Kennedy Round package. Certain commitments existed prior to January 1 because of earlier GATT agreements. As I mentioned before, one of those commitments was that in respect of any of these machines, when of a class or kind not made in Canada, the bound rate of duty was 7½ per cent. This commitment was renegotiated in the course of the Kennedy Round negotiations and the termination of that commitment was one part of the package which was involved in the introduction of the new 15 per cent rate in respect of the whole of the new and very broad item 42700-1 which, as has been mentioned before, has replaced 18 items which have been struck out of the Customs Tariff. I might say that it was the understanding on both sides of the table, the tables in connection with the GATT negotiations, that that new item would replace in their entirety all of the items being struck out. For us now to strike out of that item certain products and provide for a higher rate of duty on them it seems to me quite clearly would involve either a need to renegotiate a commitment which the Canadian government undertook or, alternatively, to breach it.

• 1230

Mr. Hales: Are you saying that if we feel a mistake has been made and we put electric toothbrushes in with big machine blades there is no way we can correct the error we think has been made? Do we have to leave an electric toothbrush in the same classification as a big blade?

Dr. Annis: I would say that it could be taken out provided the same commitments that were made with respect to the whole of the item, including the electric toothbrushes, were adhered to or, alternatively, if one is to make a change of this sort, a necessary preliminary is to negotiate his way out of the commitment; either that or, alternatively, to breach the commitment.

Parliament, of course, is always supreme and can, if it so desires, enact legislation which is inconsistent with the commitments the government has made, but if it does so, then it must recognize that it must be prepared to face the consequences.

Mr. Hales: It would appear that if we have made some mistakes at Geneva we will have to pay for them. We have made a deal and we are in it, and that is it.

Dr. Annis: Yes, sir, and a deal which involves benefits and also involves paying a price for those benefits. Now, there are ways out.

Mr. Hales: Well, I would like to know one way to get out of it.

Dr. Annis: One way is to renegotiate the commitment.

Mr. Hales: And this is next to impossible.

Dr. Annis: I would not describe it as next to impossible. I would say that it could more properly be termed to be something that would involve a policy decision, and that if that policy decision were to be taken, it should be taken in the light of both the pros and the cons, the certain arguments for doing it such as have been adduced in the brief before you, and where one would have to recognize also that there are problems involved.

Mr. Hales: We are short of time. May we get on to this next question? Why did Canada and all the countries that negotiated not go into the Brussels system of classification before going to Geneva? Then we would have negotiated on an equal basis and all would have been playing the same game with the same set of rules?

Dr. Annis: I am not sure that would follow from the fact that we had a Brussels classification in advance. There would have been some advantages if we had and also some disadvantages.

But first, on the point that something like 75 countries have now adopted the Brussels nomenclature, it is true that it is easier to compare tariffs of countries that have the same nomenclature. The fact that 75 countries have adopted the Brussels would facilitate comparisons between Canadian rates of duties and theirs if we also went to Brussels, but remember that these 75 countries, while undoubtedly a good many of them are large and important countries, account even collectively for only the smaller part, not the greater, of Canada's trade.

The United States alone supplies something like two-thirds of our imports and takes nearly two-thirds of our exports, so that in one sense we would not, by going to the Brussels system, be adopting the classification of our

principal trading partners. If you followed your logic that we want to have what our trading partners have, I suppose the logic would indicate that we ought to adopt the United States classification. Now, I would not want to follow that, but I am just pointing this out as being one of the considerations that is relevant.

• 1235

Mr. Macdonald (Rosedale): Is the British classification B.T.N., or is that distinct itself?

Dr. Annis: The British went over to the Brussels just a few years ago.

Mr. Hales: Are Canada and the United States giving consideration to this now?

Dr. Annis: Mr. Burns could speak more authoritatively on the United States in that he is really quite an authority on the United States tariff. The United States rewrote their tariffs completely fairly recently but they did not adopt the Brussels classification. I think it would be fair to say that they were influenced by it and adopted provisions which are similar in many respects, but they did not adopt the Brussels classification. I am sure Mr. Burns could enlighten us properly on that.

Mr. Hales: That is fine. Thank you very much, Dr. Annis. Just one other question, and then I have finished. What was the thinking of the officials when you were swapping and trading and you asked certain industries to accept this reduction in tariff in one fell swoop? I am thinking of the steel wire industry which happens to be in my area. On January 1 this year they had to absorb the full tariff cut which, I think, was 15 or 22 per cent, and at the same time were expected to compete with Belgium, Sweden, and other competitors from European countries. This has made a pretty rough deal for them, and naturally they felt that it should have been phased out in the same way as for other industries.

Dr. Annis: We need to draw a distinction, I think, between steel wire and other types of wire, and the electrical appliances that were talked about earlier. The Tariff Board was given a reference quite some time ago, and asked to examine and report on wire and wire products of any material, including steel, aluminum, copper, and other metals. The Board submitted a report shortly after

the Kennedy Round negotiations commenced but before they had got very far, in which it recommended a revision of the relevant tariff items of a sort that involved reductions on quite a few of the more important items. Some of those reductions were quite sharp, but it did not involve reductions only. The Board's recommendations involved a re-write in provisions, the deletion of certain end-use items which provided for free entry of wire for some purposes, and increases in rates on some types of wire where they knew the rates were out of line.

The Government decided it would adopt the recommendations subject to some very minor changes that had been made by the Tariff Board and, since these on balance involved reductions in rates, that it would be good business not to do this unilaterally as would be the normal course on the receipt of Tariff Board recommendations, but rather to offer the new provisions as concessions in the Kennedy Round and to ask our trading partners to pay for them. This is what was done, and the rates as they have emerged in this agreement are the rates recommended by the Tariff Board with one or two minor exceptions which I might mention later.

It is fair to assume I think, on the basis of past precedence, that it is likely the government would have introduced those in a single step as normal budget resolutions if there had never been a Kennedy Round.

Mr. Hees: May I ask a supplementary?

The Chairman: If Mr. Hales will yield.

• 1240

Dr. Annis: I might just add one point in connection with the Tariff Board. The government adopted the Tariff Board recommendations with only minor changes. I might fill that out by mentioning what those changes were. The Board's recommendations would have involved increases in the British preferential rates of duty on two or three products, including barbed wire which was mentioned before and certain wire and steel rope for the fishing industry which it was decided not to implement. Those particular rates were less, as they had been previously, despite the fact that the Board had recommended an increase.

Mr. Hales: Well, we looked after the farmer and the fisherman there so I will drop it.

Dr. Annis: Yes, but in that case I would think—well, what I was going to say might

be open to argument. I was going to say that in these particular cases it was possible to do so without risking any serious injury to Canadian wire producers but it may be that some of them in contact with you have disputed that.

The Chairman: I suggest to the Committee, since we have a number of members that have not yet had a chance to ask questions or make comments and since our witness for this afternoon is Electrohome Limited, represented by Mr. Pollock, that we continue our discussion with the Canadian Manufacturers' Association at our afternoon session and then, when we have completed that, we hear from Electrohome during the concluding portion of our session this afternoon. I think that would be a more reasonable way of proceeding rather than attempting either to shoe-horn a number of the members opportunities for questioning into the remaining period before our adjournment, or to deprive them completely of the opportunity.

Mr. Hees: You are always very fair.

Mr. More (Regina City): You have anticipated the point I was going to raise, Mr. Chairman.

The Chairman: I presume this means it was a good point. Perhaps we can continue—I do not suggest that we adjourn now; let us continue until one o'clock. I believe Mr. Hales has completed his questions and I now recognize Mr. Gilbert.

Mr. Gilbert: Mr. Chairman, I am going to direct the attention of the members to the trade barrier problem that Mr. Johnston set forth. He said that his particular company had experienced difficulties in England and Sweden with regard to obtaining markets in those countries.

I happened to read the speech by J. Herbert Smith, the President of the Canadian General Electric Company to the Electric Club of Toronto on November 16. This forms part of our evidence. He sets forth a four-point program with regard to meeting the problems of the Kennedy Tariff. He says that the last one, which is the fourth one, is asking for provincial support in developing a new purchasing relationship between power commissions and the electrical industry. Is it not the very same thing you are decrying about England and Sweden who are prohibiting entry into their markets if you want a

special relationship with these provincial power corporations?

The Chairman: Mr. Johnston, can we hear from you on this?

Mr. Johnston: That is exactly what we are recommending; that is exactly what we are attempting to do. It is our feeling that so long as these other countries want to play by that set of rules the same set of rules should apply to Canada. We have a responsibility to our employees for sets of people who have a claim on our firm and also on the other firms within the industry—our employees—and they do not buy much when they are unemployed...

The Chairman: Unless we told the Consumers Association.

Mr. Johnston: ...right, and our shareholders, the government who collects its share of the taxes and to our suppliers.

Mr. Gilbert: I am not criticizing.

Mr. Johnston: If we are going to play in the international market by a set of rules that is loaded against us and people are allowed to dump into this country without any inhibitions or rules that prevent them from destroying our industry, then we are going to end up with our employees unemployed and, as I said, they do not buy very much when they are unemployed and this just goes around in a vicious circle.

• 1245

We intend to recommend to the power commissions in Canada that they support Canadian industry until after it has been proven that the rules in these other countries are the same as in Canada; that is, that we have uninhibited entry to their markets, that we can obtain specifications, that we can put in a bid price, that the bid price is published, we know who got the contract, what the prices were for the comparative bids—this is what goes on in Canada, gentlemen.

If you are a manufacturer, whether you are a foreign or a Canadian manufacturer, you can go to Ontario Hydro and ask for the specifications, say that you are qualified to bid, you can bid, you can obtain the prices, you know who bid what. So long as you can meet the technical specifications you can get the business. When we get that kind of a set of rules internationally we are quite prepared to compete but we do not want the base of

our industry destroyed in Canada, because once the heavy equipment industry is destroyed these are skills that will disappear and they are most difficult to build.

You can say, well, why not transfer them to some other activity? The kind of investment and the kind of skills that are involved in this industry are the kind that you do not transfer lightly to another industry.

Mr. Macdonald (Rosedale): May I ask a supplementary?

Mr. More (Regina City): Mr. Chairman, on a point of order, the point struck me that there is an eager beaver down here who is interrupting whenever he chooses without asking consent of the man who has the floor or going through the Chairman. I think it would be a lot better for all of us if he did what should be done, and that is go through the Chairman.

Mr. Hees: I would like to speak to that point.

Mr. Macdonald (Rosedale): Well, Mr. Chairman, may I ask a supplementary?

Mr. Hees: Mr. Chairman, I would like to speak to the point of order. I asked permission of Mr. Annis to ask a supplementary a few moments ago. I was refused so therefore I naturally expect that you would refuse Mr. Macdonald.

The Chairman: I think the procedure we have adopted—and perhaps it is unique to this Committee—is to permit supplementary questions only if the person who has the floor is willing to yield and, if the period of questioning is completed, this includes the person who is next on the list subject, of course, to some over-all supervision by the Chairman.

We have used this procedure with some success over the past several years and I think we are all aware of these principles. There are times when it seems obvious that the person asking the question will not object and I do not take the time to ask him if he yields, but I do this only when the situation seems to be obvious, otherwise I take it upon myself to clarify the situation.

Possibly, therefore, I could place the onus on Mr. Gilbert and I know that none of us will be upset if he insists on going on with his questions without interruption or, on the other hand, if he yields to a supplementary question.

Mr. Gilbert: It is very kind of you, Mr. Chairman, to put the onus on me. It has been the practice in the past...

The Chairman: I said the onus is on you subject to over-all supervision and regulation by the Chairman.

Mr. Gilbert: I am prepared to follow the rule of the past and to yield to my friend if it is a short question.

Mr. Macdonald (Rosedale): I can thank Mr. Gilbert for his courtesy.

I would like to ask a question to make clear your reference to making a submission to the provincial power authorities. You are not suggesting that the federal government should put an embargo on to be lifted reciprocally if you get the other treatment?

Mr. Johnston: We have not considered that as a company, and I am only speaking on behalf of my own company; do not misinterpret this in relation to the Canadian Manufacturers' Association.

The Chairman: Before we turn to Mr. Gilbert I want to add a further point of clarification to my elaboration of policy on supplementary questions. I think it is understood and implicit in what I have said that the supplementary questions should be short and to the point, and I say this without reflection on any questions that have been asked today. Obviously we would not want to see them develop into substitutes for the regular period of questioning allotted to the member who asked the question.

Mr. Gilbert: Mr. Chairman, I would like to ask Mr. Johnston whether he implies that the result of this new arrangement with provincial governments and power commissions would mean that the Canadian public would be subsidizing Canadian manufacturers for the purpose of ensuring the continuation of the particular business that is being protected?

• 1250

Mr. Johnston: No, I do not think they will be subsidizing the Canadian manufacturers; the Canadian manufacturers are not making that much profit on this kind of business and I think this is in the national interest, and if you want a further statement it is that the people the Canadian public are subsidizing in this respect are the manufacturers in Great Britain when they buy their equipment or

any of these other people who have these peculiar dual-pricing arrangements: a higher price for the domestic market, whereby they get 16½ per cent return on their investment, and a very low price in the export market. These are the people who are being subsidized.

Mr. Gilbert: Mr. Chairman I will move on to the second question which has to do with productivity. On pages 12 and 13 of their brief they set forth that the productivity of Canadian manufacturing vis-à-vis American is between 30 and 33 per cent lower. On page 12 they say:

The rate of improvement in output per worker has been disappointing, yet the upward push on costs has been continuing unabated.

And in another place they say:

Of the seven large member nations of the Organization for Economic Co-operation and Development, Canada's growth of output per worker ranked seventh in the 1960-65 period.

Again, I am going to direct our attention to the speech by J. Herbert Smith. I am reading from page 4:

The Economic Council quite properly points with considerable concern to the 30 to 35 per cent lower level of manufacturing productivity in Canada as compared with the United States. This unsatisfactory condition is explained as being principally due to the variety of products and models produced from our factories. This short production run operation was found to be characteristic of secondary manufacturing in this country.

Then he says, and this is rather important:

The unique strength of Canadian manufacturing is its high efficiency in the production of multi-models, multi-types and multi-ratings of products from a single manufacturing area. Canadian industry probably leads the world in the high level of productivity it has attained in this type of operation.

And as a final quote, he says:

While it is true that the productivity of Canadian manufacturing is approximately 70 per cent of that of the United States, it is still one of the highest in the world

next to the United States. The corresponding United Kingdom productivity ratio is 50 to 55 per cent and that of Italy approximately 30 per cent.

The figures and statements you set forth in your brief seem to conflict with the speech by the President of Canadian General Electric Company Limited. I would imagine Mr. Johnston would support the President of the company whom he represents. Wherein lies the difference?

Mr. Johnston: From what I see, Mr. Chairman, the difference lies in the fact that what is included in the brief is a paraphrasing of what appeared in the last report of the Economic Council of Canada. We differ with what the Economic Council says with respect to productivity. When you refer to the OECD, it is difficult to compare their productivity figures with the way we measure productivity in our industry and in the electrical industry.

We are getting into an area of dangerous and invidious comparisons when we try to compare the figures. We in the electrical industry do not agree entirely with what is stated by the Economic Council about productivity. They are dealing in gross amounts. We in our own industry and in our own firm are able to measure the real output per worker at the factory level and the plant level, and we made some comparisons with equivalent kinds of people in other countries from information we have been able to get our hands on. We know that we in Canada stack up exceptionally well in this multi-model, multi-line kind of factory. In fact, we stack up so well that our parent company, which has problems with its manufacturing plants in such places as Italy and other smaller markets, sent Canadians to these places for periods up to three or four years to help them with specific problems.

• 1255

Mr. Gilbert: If you are so efficient why then are you so worried about agreements with provincial governments or power corporations?

Mr. Johnston: You have missed my point. We are not worried if the rules of the game are the same as long as we can get into that other market. The UK manufacturers is one example, and the same applies to the Japanese and Swedish manufacturers and the rest of them that are coming into Canada. They have a dual pricing set-up: they have a very

low export price and a very high domestic price in their own country—even for custom-built equipment. I tried to point out to you that even on one line of product, and it is going to be extended to power transformers and other equipment in Britain, they have an agreement with the Central Electric Generating Board that when paying for the material domestically they will be allowed to write off a portion of their export costs against their domestic business. In other words, the domestic customer, which is the government (the Central Electric Generating Board) is paying for the export costs. We know some of the prices that they are quoting in this country. We know about a recent case, which is under investigation, where the export price quoted into Canada by a UK manufacturer was so close to its base cost that they could not hope to absorb any of the other indirect costs. We do know in this line that our base costs, both with respect to labour and materials, are as good, and in some cases, better than foreign manufacturers. But here we have manufacturers coming in from foreign countries and their whole idea, as far as we are concerned, is to dump and to destroy. What happens to prices if this industry disappears in Canada? What happens to our provincial utilities when other manufacturers in other countries can perhaps get together, like they have done in the past, and divide the world up.

One of the things I think you should recognize is that in the past there has been traditional markets for British, Swedish, German, French and Italian manufacturers and they have had the world pretty well divided up. The markets now are beginning to disintegrate. They have just gone through a period of disintegration in Australia, Southeast Asia and all over the world; they now regard Canada as a real lucrative market, and their first move is to remove domestic industry.

The Chairman: You are saying, because various countries have a dual pricing system and restrictive purchasing policies, that the competitive advantage that you have through your productivity is in effect counter-balanced or wiped out, and you are asking that you have an opportunity to make sure that your competitive advance in productivity is reflected both in Canada and abroad based on prices and the opportunities you have.

Mr. Johnston: That is correct.

Mr. Gilbert: Mr. Chairman, Mr. Pollock said, in respect of television manufacturing,

that we have nine main manufacturers in Canada and twenty-five in the United States. That brings up the problem of product specialization and mass-run production. I am just wondering what your views are with regard to this problem. Mr. Smith says that mass-run production is just not feasible in Canada.

The Chairman: He may be talking about two very different types of products, I do not know.

Mr. Gilbert: He may be, Mr. Chairman, and probably Mr. Pollock can straighten it out. I am concerned about the problem in general and whether we should attempt product specialization or mass production to try to capture other markets.

Mr. Pollock: Mr. Chairman, Mr. Gilbert might think of the position of a Canadian company, such as the Canadian General Electric Company which is a subsidiary of an American parent. Under those circumstances, the General Electric Company can perhaps produce products in Canada and ship them to the United States, and on the other hand import products from the American parent on the same basis as do the automotive people.

• 1300

But what happens to a Canadian company such as ours? We have no American parent. We do all our own design work and all our own styling. In his comment of a moment ago I believe Mr. Smith was referring to the multi-efficiency and multi-model area. We have a line of models that competes with both imports and domestic manufactures. If we were not reasonably efficient in the multi-model area we would not be able to stay in business. We are also selling those products in the United States—not by any means as successfully as we would like to, but we are doing it. Our Hi-fi products, particularly in the United States, are doing reasonably well; our television products not quite so well. However, we feel that the efficiency of Canadian manufactures in this particular area is reasonably good. We must be doing reasonably well or we could not sell our products in the United States.

Mr. Gilbert: All I am seeking is your comment on my suggestion. We have nine for a market of 20 million, as you say, and in the United States they have 25 for a market of 200 million. If you had only, say two or three manufacturers and two or three models surely your efficiency in your competitive

position would be that much stronger. It may be that we would have to direct our attention to assisting the Canadian industry to withstand the competition...

Mr. Pollock: Mr. Chairman, I wonder how Mr. Gilbert would suggest that the industry be rationalized? The only way that can be done, as I see it, is if the Clairtone company and ourselves sold out to General Electric or Westinghouse or RCA; because RCA certainly will not sell to Westinghouse, nor will Westinghouse to General Electric, and that sort of thing.

Under those circumstances, the rationalizing of the industry in that sense is not possible.

The Chairman: What if Clairtone breaks with Electrohome?

Mr. Pollock: That, sir, is a question on which I have no comment at the moment.

The Chairman: Mr. Gilbert, do you wish to continue this afternoon?

Mr. Gilbert: I think I had better do that.

The Chairman: We will adjourn until after Orders of the Day.

AFTERNOON SITTING

• 1542

The Chairman: Gentlemen, we will resume our meeting now on an unofficial basis for the moment. When we adjourned I believe Mr. Gilbert had the floor and he had further questions to ask.

Mr. Gilbert: Mr. Chairman, one of the main problems I see with regard to Canadian manufacturers is the problem of their deciding between product specialization and multi-product, multi-model, multi-rating type of production.

I also see the problem that the Canadian-owned manufacturer faces. He must first establish a strong domestic market before he can consider exports.

From evidence we have received from other witnesses applying to foreign-owned subsidiaries in Canada, the reason they set up branch plants in a place like Canada primarily is to serve the domestic market, and in some cases their export policy is determined

by the parent company and, if not by the parent company, by an international corporation.

It seems to me that we cannot expect too much of an increase in exports from foreign-owned subsidiaries in Canada because of their concern for the domestic market and their lack of control over the export market. Therefore, it falls to Canadian-owned manufacturers to strengthen the domestic market and find ways and means of expanding the export market.

I would like to hear the views of the members concerning the ways and means by which Canadian-owned manufacturers can strengthen the market here and expand their export market. What can we as a government do to help them in this regard?

Mr. Pollock: Mr. Chairman, that puts us very much on the spot. I think so far as Mr. Gilbert is concerned, in very general terms he is right. The original approach of companies, coming in from the United States was to serve the Canadian market and also to serve markets of the Commonwealth. But I do believe this is changing in a lot of companies. The Coleman lamp Company is an example—Mr. Terrell will not be here this afternoon—and all of their exports are carried on regardless of where it is, not just the Commonwealth, through the Canadian subsidiary.

• 1545

Canadian companies by and large are awakening to the fact that there is an opportunity in the export market; I am thinking now of secondary manufacturers and we hear more and more every day. Mr. Lang and other men in his Department having to do with exports certainly hear more and more each day about companies that want to know about what duty is applicable on this, that or the other part going to here, there or the other place.

I think Canadian manufacturers are awakening to this. I think the research and development incentives will have a great deal to do with this. Our own company is an example. If we tried to sell in the United States and we depended upon an American company for our designs and styling, our engineering work, I think we would be in the position where this company would say, all right, you export anywhere else but do not ship into the United States.

However, because we designed our own television sets and practically all of our prod-

ucts and styled them all, we are in a position that we can ship there. Now, I think incentive in this area is perhaps one of the most important means of stimulating the Canadian industry to export.

There are other angles. I do not know enough about this and I wish Mr. Terrell were here because he has much more knowledge than any of the other members of our delegation and he would be able to answer this more effectively, but I can tell you that a lot of companies are endeavouring to do this.

I think more and more this will be the case. We do need, I think, to begin with as you pointed out, a good solid base in Canada and from that point of view the Canadian industry has to be more profitable. I think one of the great problems in Canadian industry today is that it is not as profitable as it should be from the point of view of being able to afford research and development, and activities of this sort.

All of this costs money. We know because we have spent a lot of money endeavouring to sell products in the United States, and it is a costly business. A company needs to make profits in order to afford it and I think a good, stimulating environment for Canadian secondary manufacturing plus as much by way of research and creative stimulants, will help do a job for us.

Mr. Johnston, would you like to say anything further on that?

Mr. Johnston: Only to the degree—and I can speak only from my own experience; maybe other companies have different policies—that so far as my company is concerned we do export to all parts of the world, even into the United States. We export such things as wringer washing machines, drives for electric lawnmowers, kettles and a whole host of things to the United States and also to other parts of the world.

We have sold and are building an atomic power plant in Pakistan which is developed on a concept with strictly Canadian design. It will be a heavy water moderated and cooled natural uranium reactor. We bid on the Finland job which, unfortunately, was not awarded and we are bidding in a consortium of the Argentina job in the atomic power area. We export generators to Brazil and other places.

I do not think this, as a generalized statement, applies to all companies. Now, it may apply to some and that is the only comment I

have to make in this area. I know that we take advantage of the research incentives in our company for developing Canadian designed equipment and which we promote the sale of in the world markets. Actually the atomic power is, and all the machinery and so on associated with it. We operate this way and there is no attempt by our American parent to say we cannot do it.

The Chairman: I presume what Mr. Gilbert had in mind was stimulated by evidence we had from representatives of the Machinery Equipment Manufacturers' Association of Canada, the chief spokesman of which said—and I believe I am summarizing what he said correctly—that 60 per cent of the members of his organization were foreign controlled and that their parents established them primarily to share the limited Canadian market and it was unlikely that they would be allowed actively to seek exports.

• 1550

On the other hand, I think quite encouragingly, The Canadian Chemical Producers Association that appeared before us, and people like yourself today, have shown us a somewhat different picture relating to your rather different industries even though there is a pattern of foreign ownership in them.

Mr. Johnston: We have a subsidiary in the heavy machinery area the Dominion Engineering Works Ltd. which is a member of that Association. It exports to the United States; fact, just about two weeks ago it was awarded a big order for hydraulic turbines for the United States.

The Chairman: Perhaps you ought to have your subsidiary talk to representatives of the other subsidiaries and associations and get them to emulate your policy.

Mr. Johnston: It may be an attitude of the parent company; I do not know. A parent company is a multi-national company that operates in all countries of the world and is very cognizant of the national interests of the populations of the countries in which it operates; also the fact that there are minority shareholders and they are very cognizant of their interest, too.

Mr. Lang: I might add, Mr. Chairman, that we do provide an important service to Canadian manufacturers in the export business, not only in my department which is the Tariff where we deal with documentation, but

in other departments of the Association such as transportation and ocean freight. Our commercial intelligence looks into market possibilities and it is true that the reductions in United States duties under the Kennedy Round have stimulated a great deal more interest by Canadian manufacturers in knowing what the duty rates are, and in many instances they are quite surprised to find, for instance, that the exchange differential is just about equal to the duty going into the United States. We are hopeful that the general pattern of trade, which obviously in the past has been more or less a one-way street from the United States to Canada, will start going the other way, which will make it a two-way proposition. Certainly this is most important and we are trying our best to stimulate the general interest of our membership. Of course, this includes United States subsidiaries that, admittedly came to Canada in the first instance to supply the domestic market and to supply the preferential countries where we have a competitive advantage from a tariff standpoint. They are now beginning to look at their parent companies to determine whether there are certain components or finished goods which they may be able to make as cheaply in Canada as their parent company.

Mr. Gilbert: Mr. Chairman, Mr. Johnston stated this morning that we have to take business as it stands. He cited the experience of his company in England and Sweden. We read the suggestion of the President of Canadian General Electric that they should have purchasing arrangements with provincial power corporations that would give their goods a preferred position. Would you suggest that this type of approach should apply to other goods in order to protect Canadian manufacturers?

Mr. Johnston: Is this question directed to me?

Mr. Gilbert: To any one of you.

Mr. Johnston: Mr. Gilbert, as I explained, in our field of interest the international rules of the game are such that we feel we can go to the utility with a good story and say, "This is what we think you should do in your own interests". We feel we can explain the benefits to be derived.

Mr. Gilbert: I am prepared to accept your premise but should it apply to other products? If these are the rules of the game,

then it may be incumbent on us to comply with those rules and to protect Canadian manufacturers.

• 1555

Mr. Johnston: If the rules of the game are the same in other segments of heavy industry as they are in the heavy electrical apparatus industry, then I would say that if we wish to maintain a base of heavy industrial capacity in this country those industries should be looking for the same thing with their customers, that is, if their customers deem it important to their future survival and their future service within the industry to maintain a supplier in Canada. I think the utilities are faced with this kind of decision today under the existing set of rules.

Mr. Pollock: Mr. Chairman, I think as far as the Canadian Manufacturers' Association is concerned that we can say, that its general policy is to look forward to an environment which is stimulating for the development of secondary industry. We are not necessarily looking for this particular matter unless, let us say, there may be some special circumstances that would occasion such a thing, but this is not the rule. As you know, in the United States they have a "Buy American" program, and I think by and large the Canadian Manufacturers' Association has pushed the concept of "Buy Canadian" very hard. We would very much like to have a little more attention paid to this and we will continue to work in this particular area. However, I do not believe we are interested in any special deals, and I think you can understand the situation in which Mr. Johnston's company has found itself in the particular case that he cited.

Mr. Gilbert: That is all for the moment, thank you.

Mr. Hees: I would like to go back for a moment to the question of dumping. Before lunch Dr. Annis was asked by one of the members of the Committee if any changes had been made during the past few years in the anti-dumping law. I think he mentioned that it was in 1962, or some time around then, that some changes were made.

Dr. Annis: I do not think that is quite what I said, Mr. Hees. I referred to some very important changes that were made in 1936. This is going a long way back to the time when that 10 per cent rule was established. There is still in effect an Order in Council which was passed at that time.

Coming down to more recent times, there were rather extensive amendments in the Customs Act which affected the basis for valuation in 1948. There have been some other less important ones since then. Those have some relevance to the anti-dumping provisions, even though they do not affect section 6.

Mr. Hees: I am not conversant with those. This was to simplify the examination of value for duty to make sure that it was more and more difficult for people to dump in Canada. Was that the idea?

Dr. Annis: I would not want to generalize too broadly. If one refers specifically to the amendments made in 1948, they were to square the provisions of the Canadian legislation in this field with the provisions of the GATT which had been negotiated the previous autumn.

Mr. Hees: I would like to ask the appropriate members of the Canadian Manufacturers' Association to give their opinion on the desirability of the old anti-dumping laws as they exist even today and those that are proposed to be adopted next July. Would one of you gentlemen like to comment on the feasibility of operation, and as manufacturers how you would like to operate under one set of rules or the other. I would like to hear an opinion on this.

• 1600

Mr. Lang: Certainly we did not initiate this change from the present basis of anti-dumping through the international code. I am not sure whether the government representative will confirm this, but I believe that Canada was under considerable pressure in the GATT negotiations to adopt the international code. I think there was pressure from England and possibly from the United States, and it was decided—I am not too sure just why—to adopt the international code. Having done so, we know we are going to live with it and we want to make sure that it is as effective as, or possibly even more so, the other legislation. We think this is going to depend not so much on the actual wording of the new legislation but on the way it is administered and enforced. It is most important that complaints of dumping be looked into promptly and that the customs authorities satisfy themselves whether or not dumping has taken place. Also, that the board, which is to be established, does in fact make quick decisions on

whether injury is being caused or whether there is a threat of injury. If this is done, then certainly there is no reason to believe that the new legislation cannot be as effective as the present legislation. Time alone will tell, and we are just going to have to live with the situation and, as I say, this is an area of some deep concern.

Mr. Hees: Just from your practical experience of dealing with these matters, how long do you think it would take from the time the goods were brought into the country until their sale could be stopped, provided injury had been proved? How long do you envisage this will take, knowing the practical difficulties of these things? There is the application to the board, the length of time it takes to have a hearing assembled and the length of time it takes to bring down a decision. How long do you think might be required in the normal course of events?

Mr. Lang: It is very difficult to generalize here. There should be no reason, on importations from the United States, that the information should not be obtained promptly. It is more difficult when you get into Japan, Hong Kong and some of these out-of-the-way areas, where competition is pretty rough, because of the difficulty in getting factual information on which to determine whether or not there is a bona fide case of dumping. The time element is important here and we are hopeful that perhaps some new procedures can be established. It may even warrant the opening of new offices by the Department of National Revenue in order to get such information promptly. Certainly under normal circumstances, as far as the United States is concerned, I would say that three months should be ample time in which to complete an investigation and determine whether dumping has taken place and whether injury has been caused.

Mr. Hees: Would you not consider that within three months an industry might be done irreparable harm if the commodities brought in as a result of the first effort were very large, as they undoubtedly would be?

Mr. Lang: This is very real, very real.

Mr. Hees: In other words, you have great fear of this new legislation?

Mr. Lang: But there is a provision in the Code, and this is something which we like, under which you can take action immediately.

Up to this time, under the old law, the Department of National Revenue were reluctant to impose anti-dumping duties until they had the facts. Now under the new code there is an arrangement where provisional action can be taken, and we would hope that where overnight dumping of large surpluses is found to be the case decisions will be taken to impose provisional anti-dumping. Under the Code the government has only 90 days in which to determine whether or not there has been in fact actual dumping. So there are some pluses in the Code. I would not want to give the impression that it is all a matter of concern. If these facts are put into law and, as I say, action is taken administratively to look at every case individually on its merits and prompt action is taken then I think we can live with it. We would hope that it would be just as effective as our current legislation.

Mr. Hees: I would like to ask another question of Dr. Annis. Going through the new tariff changes I have noticed a lot of items where the tariff has been reduced all in one stage instead of in four stages, and some of those reductions have been quite considerable—for instance, from 22½ per cent down to 15, which is quite severe. What was the thinking that went on in the negotiator's mind—when it was agreed to impose a complete drop in tariff in one crack instead of over the four years as I think we all understood was the original intention. Why was it done that way? Why were not these reductions spread over four years as a general rule?

The Chairman: Perhaps, Dr. Annis you could summarize some of the comments you made on this this morning.

Dr. Annis: In the first place I would mention that as a general rule the Canadian cuts are staged, although you are quite right in pointing out that there are quite a few exceptions to that.

• 1605

Mr. Hees: I am just wondering why there were exceptions. The other rule seems to be a good, sensible one.

Dr. Annis: There is more than one reason for that and it depends to some extent on the nature of the goods. One class of cases, a class to which Mr. Pollock and the CMA do not object—he confirmed that this morning

—would be the type of non-competitive product that is illustrated most clearly by the tropical products. There are some others which do not fit quite into that class but have analogies, and primary lead, zinc and copper are examples of these. In each case, of course, we produce those in Canada. But in each case it was the view that our competitive position is so strong that we do not need protection and that it is more important to safeguard the position of the secondary user. So this is the second group of cases.

Mr. Hees: The cases I am worried about are the manufactured articles, of which I know there are some. I know there are some electrical goods which are particularly important to these gentlemen here. I notice those when going through the tariff.

Dr. Annis: Yes, that is quite right, sir. I gave a brief summary of some of the reasons this morning.

Mr. Hees: I am sorry but I was at the Constitutional Conference earlier.

Dr. Annis: Well possibly I could repeat part of it, or it might be more helpful if I refer to what are probably the chief items that Mr. Pollock and others have in mind when referring to these accelerated reductions.

Mr. Hees: If these have been dealt with I do not want Dr. Annis to go over them. It is my fault that I was not here. I was attending the Constitutional Conference. If it is in the evidence I will read it tomorrow.

The Chairman: Fortunately our proceedings are being printed rather quickly and perhaps that would be the best way of harmonizing the various issues.

Mr. Pollock: Mr. Chairman, might I make one short comment on this particular matter. When Dr. Annis referred to these accelerated tariff reductions this morning he suggested that one of the purposes was to stimulate activities in order to reduce costs in Canadian industry, thereby providing more competition. This suggests that the manufacturers of these particular areas were certainly not efficient and perhaps that they did not have enough competition. I would like to draw to the Committee's attention this particular point. For example, let us take television, which I mentioned this morning. There are many more companies in Canada in proportion to the population than there are in the United States. In addition to that we have

sets coming in from several companies in the United States and sets coming in from Japan. There is a lot of competition in this particular field. Some of these gentlemen may not know anything about the furniture industry—it was not included in this group—but speaking of competition, there are well over a thousand companies in the furniture industry competing for the business in this country. So the Canadian manufacturing industry generally is a very competitive business and we do have to get our pencils out and sharpen them all the time because this is the role of survival, it is the only thing that does allow us to survive because competition is extremely keen. But it was not necessary that we have the accelerated reduction to stimulate us to work for reduced costs.

I would also like to make one other comment. Reducing these costs on an accelerated basis certainly does not seem to us to be in keeping with the concept that the government has set up, an adjustment assistance program. The government is not interested in being harmful to industry; on the contrary, they wish to help it. But why do something initially that can be harmful to some companies? Had it been the reverse, the smaller cuts taken to begin with and the larger cuts taken at the end, it would seem to me that there would be less call upon the adjustment assistance program because manufacturers basically like to develop their own ways and means and their own efforts to do their own job.

Mr. Hees: Mr. Chairman, having missed the discussion this morning could I just ask if it was the government's point of view that by suddenly creating all of the drop in one fell swoop this would provide a little bit of a spur to industry that was not really alert enough on its own and it needed a little inducement to become more competitive? Is that the answer?

The Chairman: Mr. Hees, I think it is difficult to ask the officials to comment on what is essentially a question of policy considerations. If the officials of any of the departments present who were involved in the negotiations feel they would not be out of keeping with their positions to comment on the sort of factual or information basis on which the approach was taken I will allow them to do so, but we do not want to ask them to say things which are not in keeping with their positions. I am not saying that it is not a very interesting question.

• 1610

Mr. Hees: It rather struck me, from what Mr. Pollock said, that the government had given this as a reason for suddenly dropping these tariffs in one fell swoop instead of over the customary four years, and it seemed a little strange the government would take the attitude that industry, particularly competitive industries like the electrical industry, was not competitive and did not work hard day and night to get the costs down but needed government to give them the extra lash by dropping the tariffs suddenly and saying, "Come on boys, you have not been very energetic or watchful. Now get to work and this will stir you on."

The Chairman: I think we should allow Dr. Annis to respond.

Mr. Macdonald (Rosedale): Mr. Chairman, on a point of order, I think it is rather unfair to Dr. Annis, after he gave a very logical and careful explanation this morning to take one element out of it. Mr. Hees has acknowledged he was not here.

Mr. Hees: Mr. Chairman, I am sure that Dr. Annis is very well able to look after himself. It seemed from the discussion this morning that this was the impression Mr. Pollock—a very practical, sensible man—got from somebody. I was wondering where he got it from.

Obviously he must have been given this as a reason why the government dropped tariffs in one year instead of in four and I am simply trying to get some information because, unfortunately, I was not able to be here myself this morning being one of the people delegated to be at the Constitutional Conference in the other wing of the Parliament Buildings.

I am sure Dr. Annis can answer very ably for himself, Mr. Macdonald, and I do not think we need to have you always stepping in protecting everybody at all times. These gentlemen are very able people and able to answer questions themselves, but I wish you would allow them to do so. Could we have an answer from Dr. Annis?

Mr. Macdonald (Rosedale): Mr. Chairman, in all fairness, after all Mr. Hees originally said he did not hear the full evidence this morning and now he is putting Dr. Annis in the position of having to put it all back in the record again.

Mr. Hees: I just asked one question because I could not believe that the government would take this attitude and I am just trying to clear it up. If I am misjudging the government's actions then I would like to know about it and make it all clear and above-board. We would just like to have the record straight, Mr. Macdonald.

The Chairman: In recognizing your desire to be helpful, I think we could resolve the matter very simply by asking Dr. Annis to let us know the context in which he made the reference which was seized upon Mr. Pollock a few moments ago. I think it was a much more limited context than perhaps we might have thought.

Dr. Annis: I think I can give a partial answer, Mr. Chairman. It is not a complete answer and I will not attempt to repeat all that was said this morning but a part of the answer is related to the decision to introduce this machinery plan which involves a one-step cut on machinery over a very wide area from 22½ per cent to 15 per cent.

• 1615

This was a package and a package which, from the point of view of the Canadian machinery builder, had some disadvantages but also from his point of view had some advantages. But I am taking that as a given fact. Now, assuming the decision to go to 15 per cent as of January 1, 1968, on machinery then if certain other cuts to which Canada had agreed had been staged and only one-fifth of the total cut had been introduced as of January 1, there would have been some fairly obvious anomalies created.

Now, here we are dealing with things where there are shades; there are differences. If we take one or two of the clear-cut cases there is an item that relates to bearings which had a rate until December 31 of 17½ per cent. Almost all bearings go into either machinery or vehicles and if that reduction from 17½ per cent to 15 per cent had been staged we would have had a situation where the rate of duty on bearings, parts of machinery, would have been higher than on finished machinery.

This would have seemed to have been an anomalous situation and was a factor in the decision to make the cut on bearings in one step from 17½ per cent to 15 per cent. Now, this represents one sort of case. There are not many such examples but there are some others of the same sort.

I might mention certain forgings. There is an item that relates to forgings and in some

respects the situation there is similar; in some respects it is different. The present rate is $22\frac{1}{2}$ per cent and the end rate is to go to $17\frac{1}{2}$ per cent. In this case the decision that was made, whether it was a good decision or not I will not argue, was to make half the cut as of January 1, 1968, to go from $22\frac{1}{2}$ per cent to 20 per cent and then stage the remainder of the reduction.

If one wants to argue about it, it would seem to me that it would be easier to make an argument that we should have gone faster rather than slower and, in fact, it was this sort of item that I think the Canadian Importers' Association and also the machinery and equipment people had in mind when they referred to the fact that under the new arrangement in some cases rates of duty on parts and materials would be higher than those on finished machinery.

That is true, but this acceleration, at any rate, reduces the discrepancy. Now, this is a compromise, you see. There are other cases where the argument may not be quite as strong. Electric motors is one in which I am sure Mr. Pollock would be interested and that is a case where the rate which is now $22\frac{1}{2}$ per cent on electric motors not otherwise provided for is to go to 15 per cent ultimately and where the staging that is provided for in these resolutions is really conducted as if the former rate had been 20 per cent, so that as of January 1 the rate was reduced to 19 per cent. Next January 1 it will go to 18 per cent and so on down to 15 per cent.

Now, from the point of view of a concern which is a manufacturer of electric motors, I am sure that this is a disadvantage. It would have been nicer from their point of view if there had been even staging. From the point of view of the concern that does not make its own electric motors but uses electric motors to make something else—washing machines or power shovels—I would think that the accelerated staging is an advantage, that they would find it helpful, so there are some considerations on both sides. If you agree, Mr. Chairman, I would not attempt to carry it further than that.

The Chairman: I would suggest this: you will be with us, I am sure, when we conclude our consideration of these matters and by that time your detailed answer will have been printed and if members of the Committee have further questions based on it in the light of what has been said by witnesses here today, we can go into it further.

I might say that I had not interpreted your comments as affecting any particular industry but as being given for the purpose of setting forward a number of factors which may or may not have been relevant to any particular tariff concession.

• 1620

Dr. Annis: Yes, sir, that was my intention and certainly if I gave an impression that the reason for speeding up some of these reductions and accelerating the staging was an effort to penalize or harass any industry, I am certainly sorry because that was not at all what I intended and I am quite sure it was not the intention of the government.

The Chairman: I think Mr. Hales has a supplementary question.

Mr. Hales: It is not a supplementary question, it is just a point for clarification.

The Chairman: Next I have Mr. Ballard. Mr. Ballard, will you yield to Mr. Hales for his supplementary?

Mr. Ballard: Yes.

Mr. Hales: Mr. Chairman, as I said it is a matter of clarification. This morning we were discussing under the heading of Classification certain classifications that have been made and I made the illustration of putting an electric toothbrush in with a large lathe machine under the same heading and I think Dr. Annis intimated that maybe an error had been made in this classification and if so the only way that we could change it would be by means of a policy discussion through the Geneva group on through GATT by a sort of give-and-take process.

If that is the only way this can be corrected, then I would direct my second question to the Chairman and ask him if Parliament will have before it a piece of legislation dealing with the Kennedy Round of Tariffs whereby we as members of Parliament will be able to make amendments to that legislation to take care of the very thing I have just spoken of.

The Chairman: It is always open to any member to offer an amendment. The question is, what happens if the amendment carries? All these changes, both the concessions which will require changes in our own tariffs and the concessions that have been won for us by negotiators which require changes in tariffs of other countries have come about through an international agreement. I presume that it is

always open to government to go back and try to renegotiate, but I suspect that in order to do so it would be necessary to reopen the whole Kennedy Round and to recall all the 75 countries and possibly start, if not from scratch, very close to it. It may be that if substantial amendments carry to the resolutions that the government will consider this to be a question of confidence, and the effect would be one of which we are all aware. I am only giving opinions on Parliamentary procedure, which I may not be qualified to give, but I think that technically this resolution can certainly be amended in the same way as any other tax resolution. The effect would be exactly the same as an amendment carrying to any other important government measure, and could be taken by the government as a matter of confidence, so that the inevitable results would flow if it were carried.

Mr. Hales: Could Dr. Annis answer the other part?

Dr. Annis: I might comment on the suggestion that this was an error. The inclusion in the machinery program and in the Kennedy Round item 42700-1, which was negotiated at a rate of 15 per cent, household electrical appliances of the sort that had all along been classified as machinery, was not an error in the sense of any technical error. Those close to the situation realized—possibly not in detail—that such things as humidifiers, air conditioners, and so on, were under that item. In quoting statistics in the negotiations the import figures relating to those products were included in the totals that were talked about.

Mr. Hales: May I interject about this matter of error? The Canadian Manufacturers' Association, whether you do or not, considered it an error to have appliances in this classification.

The Chairman: Dr. Annis feels that negotiations were not carried on in such a way that this was done unwittingly, and without realizing what was already in the item.

• 1625

Mr. Hales: I do not want an opinion on whether or not it was an error.

Dr. Annis: Could we pursue this point a little bit further as to whether or not the Canadian Manufacturers' Association consider it an error? I think it might be worthwhile in order to clarify that, to address a question to Mr. Pollock. However, I would have thought that they did not consider it an error in the

sense of suggesting that the Department of National Revenue's rulings were unsound. If that is their view, then they have a very clear avenue, and have had all along, of seeking redress through an appeal to the Tariff Board against the decision. I had thought in using the word "error", if that is what is in the document, that the C.M.A. really meant they thought it would have been better if the obligation undertaken in respect of this machinery item had not been applied to these goods. In other words, if they had been specifically struck out.

Mr. Hales: You are now splitting hairs.

Dr. Annis: It seems to me that probably Mr. Pollock is the best one to shed light on this question.

Mr. Hales: Then I will address my question to Mr. Pollock. It says on page 51 of the brief; "This is bound to cause serious difficulties". Would you like to enlarge on that?

Mr. Pollock: I do not think we would like to enlarge upon this any further. However, we definitely said we deplore the accelerated reduction of tariffs, and we mean it because we feel it is going to be detrimental to many of our members.

The Chairman: Mr. Pollock, I wonder if we are all talking about exactly the same thing? Mr. Hales asked a very important question about the implications of the inclusion in tariff item 42700-1 of such items as hairdryers and humidifiers, which apparently, because of some Tariff Board ruling some years ago, were deemed to be machinery. The quotation read to us from the brief seems to relate to accessories, attachments, control equipment and tools for use with machinery. I presume this means production machinery, and I think Mr. Pollock is beginning to make a comment which I am sure will be very useful on the general issue of accelerated staging of tariff reductions. I may be wrong but we seem to be talking about three items, each of which is important in its own way but which are not directly connected.

Mr. Hales: You are correct, Mr. Chairman.

Mr. Pollock: Mr. Chairman, I brought this matter to the floor, as it were, just a moment ago, and I did so because the impression I got from Dr. Annis' statement was that industries were not really responding to competition in Canada to the extent that they might. This is

why I raised this question. All I wanted to do was make sure that members of the Committee realized that Canadian industry has a great deal of competition and I tried to use the examples of several industries to illustrate my point.

Mr. Hales: Mr. Chairman, may I address my question to Mr. Pollock? I was dealing with the subject of classification whereby electrical appliances such as humidifiers, air conditioners, hairdryers and electric toothbrushes were all under the one classification of machinery, and the Canadian Manufacturers' Association have objected to this classification. They have referred to it on page 5 and said: "This is bound to cause serious difficulties". I referred to putting all this under one basket group as having been an error on the part of the negotiators. Dr. Annis objected to the word "error" and I then addressed my question to you and asked if, as far as the C.M.A. is concerned, this is looked upon as an error. Perhaps Mr. Johnston would like to answer?

Mr. Pollock: As far as I am concerned I am very definitely of the opinion that the basket of appliances should not be with machinery, and we have so stated.

The Chairman: Mr. Hales, you wanted to ask one question by way of clarification, and perhaps I am at fault. Let me get back on the track. I may perhaps have assisted you in continuing along in a way that I should not have. However, I think we should return the floor to Mr. Ballard as soon as possible.

• 1630

Mr. Hales: I had just finished, and now that we have progressed this far we come to the mechanics of it and I ask Dr. Annis the question...

The Chairman: Let me interrupt again. I think I should attempt to be consistent with what I said this morning when I responded to comments by various members of the Committee, including those on your side of the table, that I should ask you to limit your questioning to one brief interjection, give the floor to Mr. Ballard, then wait until you have another turn, which I think will come up relatively soon. This is subject to first hearing from Mr. Johnston.

Mr. Johnston: I was just going to add a comment to Mr. Pollock's with respect to the

classification. We do not regard it as something that was done in error by the negotiators, but we regard the classification as a bit of an absurdity. We recognize the things that Dr. Annis says about the rulings of the Tariff Board as to why these were in this classification, but it seems to me that the negotiators looking at this at Geneva should have had the interests of the whole country at heart, even including specific groups of employees and employers who are affected by this. Do not forget you are talking about people's jobs in this classification, because if you reduce the tariff by 7½ per cent you can affect the people who manufacture these things. Unfortunately some of the kinds of things that are affected here have the highest contributed value added in Canada.

Mr. Hales: My next question is how can we correct this? I would like to address that question to Dr. Annis.

The Chairman: This morning Dr. Annis attempted to show some of the avenues that were open.

Dr. Annis: To repeat briefly, I would suggest that if as a matter of policy it were decided that Canada was not prepared to maintain a 15 per cent rate on these goods, and wished to apply some higher rate, the correct procedure would be under what is called the special circumstances clause of article 28 of the GATT, whereby one would address to the contracting parties a request for permission to re-negotiate that item, and then approach those with a trading interest in it, which would be particularly the United States—to a lesser extent some other countries—and offer compensating concessions on other products—in other words, increase the depth of the cut somewhere else—and to withdraw this concession.

This is a real hurdle. It is something that could be done, but I would suggest that one would want to be very sure of one's ground before starting this process.

Mr. Hales: Let us suppose we could not clear that hurdle. Would the House have an opportunity to frame an amendment, and would that amendment not be ruled out of order?

The Chairman: You are asking a question that would have to be dealt with by the Speaker at the time.

I would presume, speaking on the matter very broadly, that any amendment which would be in order relative to tax legislation generally would be in order with respect to this resolution. It is basically a resolution calling for changes in the Customs Tariff, and if this is the type that is ordinarily accepted by the Speaker it would be accepted by him at that stage.

The next question to be considered is whether or not the House, even though it may recognize the general merit of the amendment, wishes to support it because of the general consequences that would follow. However, these are matters which we may have to take up in another forum.

Mr. Hales: It would appear that our efforts here are more or less fruitless.

The Chairman: I should remind the Committee that our efforts here are basically to attempt, in a broader and more detailed way, to do what is ordinarily done in Committee of the Whole by way of general study and examination of the content and implications of these changes.

• 1635

Speaking personally, I think we have had opportunities which would have been impossible at the Committee of the Whole stage. That does not mean that we may not want to consider in Committee of the Whole making amendments just as we give consideration to changes in the income tax law, or in the excise tax law, but we do so within the framework of Parliamentary and constitutional practice which has grown up over the years, the consequences of which are well known to all of us.

I do not think it reflects particularly one way or another on what we are doing here except that I think it should be clear that if we did not have this opportunity in this Committee we would not be hearing from Mr. Pollock and his colleagues today, we would not have the opportunity to get direct answers from the officials, and we would not have the opportunity for these exchanges which are very useful and can only take place within the framework of a parliamentary committee. Although it may be necessary to confine actual amendments to Committee of the Whole it may be that we are able to avoid the lengthy and repetitive discussion in Committee of the Whole, which generally impedes the progress of Parliament as a body.

Mr. Hales: It appears to me, Mr. Chairman, that we have discovered one weakness in this

Kennedy Round of tariff, and I have not been shown how it can be corrected. I am sorry to say that that is the way it affects me.

The Chairman: Dr. Annis did attempt to point out one way. All he was saying was that it is not something that would happen quickly, or automatically; that there is provision in the GATT for re-negotiation; but that it is a cumbersome and long drawn out procedure.

Dr. Annis, you mentioned something about appeal to the Tariff Board. What would happen if one of the companies involved appealed the classification to the Tariff Board and the Tariff Board agreed with it?

Dr. Annis: That would raise a nice question. My view, which has some GATT decisions behind it, is that in those circumstances Canada would still have an obligation, under the GATT agreement, to maintain the lower rate—the 15 per cent rate which had been agreed—which applied to the item as classified at the time the agreement was negotiated. If one goes back to...

The Chairman: Would not this place at least some moral obligation on the government to take advantage of the injury clause in the GATT, to which you referred, and to begin negotiations?

Dr. Annis: I am not sure that that would follow. It certainly would create a situation about which the government would have no choice but to consider what it was going to do. That is true.

The Chairman: Mr. Ballard has, I think exhibited extreme and perhaps even undue courtesy. He has even been listening with a smile to these very useful questions posed by others. Perhaps to avoid taking a chance on the smile disappearing from his face we should give him the floor right away.

Mr. Ballard: Mr. Chairman, the smile disappeared from my face long ago, because the questions I had have been dealt with.

The Chairman: We will give you full credit for attempting to ask them, though.

Mr. Ballard: I might say that when I did indicate that I wanted to speak I had the intention of bringing back before the Committee the question of dumping. I thought it was very cavalierly dismissed this morning on the basis of two statements. One was that the proper time to discuss dumping is when some legislation is before the House, or before the Committee, dealing specifically

with dumping. This I do not agree with. The best time to inform the government of the needs of Canadian industry is before legislation is drawn.

The second statement was that we dare not tamper with this because it is an international agreement and, that being so, how could it possibly be anything but right. I again disagree wholeheartedly with this philosophy. I do not subscribe to the view that what is good for General Bullmoose is good for the country.

• 1640

However, the question of dumping has been satisfactorily brought back on to the floor by Mr. Hees. I found that the answers given by Mr. Lang left a good deal of uncertainty in my mind on our approach to the matter of dumping and the continuation of anti-dumping legislation in Canada. In answer to Mr. Hees' questions Mr. Lang used the word "if" so often as to indicate uncertainty in his mind on whether the new legislation would in fact protect manufacturers and other segments of the economy of Canada from this practice.

I notice that the Department of Trade and Commerce and the Canadian Manufacturers' Association are obviously opposed on the question of dumping. The CMA says at page 18 of its brief,

The new international code on anti-dumping policies to which Canada has subscribed under the Kennedy Round will mean significantly more leniency in our anti-dumping procedures than has been the case and is accordingly occasioning manufacturers some anxiety.

In other words, Mr. Lang, your brief indicates that the Canadian Manufacturers' Association is concerned about the proposed anti-dumping measures that will be instituted as a result of GATT, yet the publications put out by the Department of Trade and Commerce on July 1, 1967, states at page 47,

Canadian exporters stand to gain...

repeat, stand to gain

... by an assurance that our exports will not be exposed to the arbitrary use of anti-dumping duties by other countries.

On the one hand the CMA expresses some concern about the lack of anti-dumping legislation in Canada and on the other the department says that we stand to gain because other

countries will not be able arbitrarily to apply anti-dumping duties on our exports to those countries. There seems to be a conflict here. Mr. Lang used the word "if" several times when he was answering the question. If he can, I would like him to give the Committee a brief indication of some of the areas of apprehension that the CMA have toward the proposed anti-dumping legislation.

Mr. Lang: Mr. Ballard, I think perhaps I should clear up this so-called discrepancy between what the Department of Trade and Commerce says and what CMA says, because we are looking at this, shall we say, from two different standpoints.

The International Code on anti-dumping, to which the United States has subscribed, should bring some benefits in so far as Canadian exports to that country are concerned. The difficulty in the United States has been the withholding of appraisement for many months—even years—before dumping decisions are made. Under the Code they will now be restricted to not more than 90 days, or 180 days at the most, within which to withhold appraisement on imports from Canada and other countries. This will be certainly some advantage in our exports, although I think if you look over the United States experience you will find that the number of actual cases on which dumping has been assessed there over the past 20 years has been relatively few.

It will mean, also, that the European Economic Community, Japan and other countries that really have not had anti-dumping legislation in the past and that have used import restrictions more than Canada and the United States have in order to, shall we say, accomplish the same purpose, will presumably adopt the Code. In other words, instead of worrying about anti-dumping, or proving it, they will just put on an import control which, of course, is much more effective in that it reduces imports immediately.

• 1645

Mr. Hees: Are they not likely to use both? If they want to, they are going to do so.

Mr. Lang: They are likely to use both, as you say, but it would depend on the circumstances.

Mr. Hees: I doubt if they will get better; they will probably get worse.

Mr. Lang: In so far as Canada is concerned, I might say that the present legislation establishes a floor price in Canada for imported goods which are competitive with those made in Canada. In other words, dumping applies if a firm in the United States sells to Canada below its regular domestic price, plus duty. In essence this establishes the price below which those goods from the United States cannot be sold.

Mr. Ballard: That is the present situation?

Mr. Lang: Yes, this is the present legislation.

This floor price enables any Canadian manufacturer to undersell that floor price, and he has the whole Canadian market to himself in that respect because the imported goods have this floor and they are not permitted, because of our anti-dumping legislation, to penetrate that floor.

In the future, under the International Code, the question of price to Canada will not cause dumping to be imposed automatically, as was the case in the past. In other words, there will be many penetrations of that floor price in the future which will not involve dumping unless it can be proven that injury has been caused. This is one of the areas where we are not too sure as we have never had a concept of injury here. The Code spells it out and says that injury must not only be to a domestic producer, but to all producers of that same product in Canada. It is going to be difficult to bring all the producers in Canada together and tell them they are all being hurt by this competitive dump price being offered by some foreign exporter. These are areas with which we have not had to live; we are uncertain as to how this is going to be developed and how it is going to be administered. Our main concern is in this area. Will the new organization that is set up to administer and enforce the new anti-dumping legislation act promptly, and will it be realistic in its appraisal of when injury has been caused to domestic producers?

Mr. Hees: Are you not very alarmed, indeed, with all these possibilities of harm?

Mr. Lang: No.

Mr. Hees: I would think you would be very upset.

Mr. Macdonald (Rosedale): Perhaps, Mr. Chairman, I should help you protect Mr. Ballard.

The Chairman: That is right.

Mr. Ballard: No, I yield to my colleague if he has a supplementary question.

Mr. Hees: We work as a team. Thank you very much, though, Mr. Macdonald. It is very nice of you to think of us both and we appreciate your care and thoughtfulness.

Mr. Clermont: It was Mr. Macdonald who was speaking.

Mr. Hees: Thank you very much, Mr. Clermont. It is very nice to hear from you, too.

Mr. Chairman: I think Mr. Johnston has something to say in this issue.

Mr. Johnston: Could I add a comment to Mr. Lang's that might help clarify it? There is concern among the manufacturers, and the broader type of manufacturer you are in the total spectrum the more concern you have. There is concern in the area of consumer goods and commercial and industrial supply goods, which are the kind of shelf items that can be imported and are imported immediately the order is placed.

There is great concern over what is going to be considered normal value under GATT. We feel, in examining the GATT, it is possible for Canada to retain the present provisions of the Customs Tariff Act for purposes of determining normal value and we have so recommended to the Glass Committee. Before I leave the standard stock and trade goods which are warehoused, and so on, the concern about injury and how to determine injury is of course, as Mr. Lang said, of real concern to us.

• 1650

We have three concerns when we get into the heavy goods industry, where goods are built to customer specification; they take a long time to build and they are imported three, four or five years after they are ordered. Our first concern is, when do they enter the commerce of the country? We maintain—and we have recommended that the government recognize this in its legislation—that these kinds of goods should enter the commerce of the country at the time the bid is opened and accepted. We should then be able to place our complaint with the government and have it investigated immediately.

We are concerned about the basis of determining the normal value. We made recommendations to the Glass Committee to the effect that the normal value should be related to our domestic costs in Canada because we know how competitive we are in this area, particularly on base costs.

We are also concerned about this question of determination of injury. In the heavy goods industry it may be easier than it is in the consumer goods industry. However, I would like to remind you that this is a very complex question and it really cannot be passed off with generalizations either in the discussions or in the legislation. I think these things have to be dealt with as two separate sides of a very complex question.

Mr. Ballard: Mr. Chairman, I can see the point. Not only do you have to demonstrate that injury has been caused, but it must be material injury. Over and above that, it must be the principal cause of the material injury. I leave it to my friends with legal training to appreciate the insurmountable problem that is presented in order to get any situation that will definitely fit into this exact definition of "the principal cause of material injury". It is going to be almost impossible to prove.

I am not too sure the new system will be an improvement over the old one because the Code, quoting from the Department of Trade and Commerce again, does not set any time limit. It says, "to the preliminary part of the investigation". This preliminary part of the investigation could extend for many months. The only time stipulation is that after the preliminary investigation has been completed the inquiry must be terminated within 90 days from the date on which the provisional measures are taken. There is really no limitation there.

Actually, this could have a very detrimental effect on manufacturing, but it also has a detrimental effect on other parts of the economy. I am thinking of the agricultural part, for example, citrus fruits and so on. If citrus fruits are dumped into Canada, by the time the 90 days has expired the cause for concern has expired because the fruit crop is ruined by that time.

The Chairman: What Canadian industry can dumping of citrus crops harm?

Mr. Ballard: The fruit industry in Canada. In any case, the fruit industry in British Columbia. I am sure they grow citrus fruit in British Columbia.

The Chairman: They grow citrus fruit in Essex county but I have never had complaints about dumping.

Mr. Ballard: I have one last question, Mr. Chairman. This booklet from the Department of Trade and Commerce indicates that the government will be prepared to hear from interested Canadians before they draw up legislation covering anti-dumping, that the government proposed to set up a committee of officials from the three departments involved, Trade and Commerce, National Revenue, and Finance, and to give the business community sufficient time to study the Code and to formulate its views. It is not envisaged that consultations will be held before mid-September or early October.

Mr. Pollock, have you been advised by the appropriate Minister that this committee of officials has been ready to accept your brief on this particular subject?

• 1655

Mr. Johnston: We appeared before the Glass committee last fall.

Mr. Lang: A committee was set up by the Minister under George Glass, who is Vice-Chairman of the Tariff Board, and private hearings were held. The Canadian Manufacturers' Association presented a brief to the Glass Committee and we also had a very useful two-hour discussion with members of that Committee. I see several government members here who were also present at those hearings.

There were a number of other associations and representatives from industry who presented similar briefs to the Glass Committee. We understand now that this Committee has taken our views into consideration and will presumably advise the government on the type of national legislation which we should have in Canada to handle these difficult problems that we are talking about today.

I appreciate very much your comments on some areas which I had overlooked but which were certainly part of our brief.

Mr. Ballard: Mr. Chairman, as a final question, could you tell me whether the hearings of the Glass Committee were private or were held in public?

The Chairman: I am informed by those of the officials present that they were private.

Dr. Annis: They were private. The Committee did not issue any information about what was said in the hearings. Any interested parties who wished to release their own brief were free to do so but were not at liberty to reveal what took place in the discussions in the Committee because the hearings were closed.

The Chairman: Mr. Macdonald, did you have some further questions?

Mr. Macdonald (Rosedale): Dr. Annis, going back to this problem of classification to which Mr. Hales referred, classing electrical tooth-brushes as machinery, as I understand it, Dr. Annis, this classification was essentially in the Canadian tariff for some time prior to the Kennedy Round.

Dr. Annis: Yes, sir.

Mr. Macdonald (Rosedale): And you carried out consultations with the Canadian Manufacturers' Association and interested firms with regard to the Kennedy Round both before and during the negotiations?

Dr. Annis: A committee called the Canadian Tariffs and Trade Committee was established early in 1964 under the chairmanship of Mr. Hector McKinnon, former chairman of the Tariff Board. It invited briefs and then heard interested parties. Over 200 briefs were received and the hearing went on for several months. That committee then was kept in existence, although it was not very active, during the course of the negotiations so that interested parties who wished to submit supplementary information or to bring their briefs up to date could do so. Some did so, and whenever they did the resulting information was passed on not only to those interested in Ottawa but also to the delegation in Geneva.

Mr. Macdonald (Rosedale): Before it actually saw the light of day in final form was the machinery proposal ever floated around, for example, to Canadian industry or to the Canadian Manufacturers' Association?

Dr. Annis: There were consultations by officials of the Department of Industry with interested parties, certainly including the Machinery and Equipment Manufacturers Association as well as others before that proposal took final form. I think there were at least two major meetings, one in the early stage—really before drafting commenced, as I

understand it—and a second one as the program was beginning to emerge. I confess I am not in a position to supply details.

• 1700

The Chairman: Mr. Drahotsky of the Department of Industry has been called away but it was my understanding, without checking the evidence that we took some weeks ago, that Mr. Wright, the policy advisor, read extracts from letters. In any event, I got the impression that a number of groups interested in this machinery program were contacted about it on various occasions.

Mr. Lang: As a matter of fact, these things get rather complicated and complex when you look at the whole package deal. It is true that several years ago we in the Canadian Manufacturers' Association looked at this problem of machinery, particularly in the light of the difficult situations that were developing on the problems of class or kind. Many of these came before the Tariff Board and, despite lengthy hearings, decisions were not exactly what you might term acceptable or favourable to anyone in the machinery or in the users group. It was then that we looked into the British system whereby they do remit the duty on machinery not available in Britain, and we, in the last couple of years, have recommended to the government that a similar system be established based on the British system now in effect. We looked at these items in the context of the Kennedy Round and electrical appliances generally were either in a general basket item or electrical apparatus at $22\frac{1}{2}$ per cent, or they were in machinery of a class or kind made in Canada and similarly the duty was $22\frac{1}{2}$ per cent. So really there was no distinction in the minds of the manufacturers. We just assumed that the duty was $22\frac{1}{2}$ per cent and that if something happened in the GATT negotiations there would be a gradual reduction to perhaps a lower rate because we were quite aware of the fact that in the GATT negotiations Canada was looking very carefully at all the duty rates over 20 per cent, and these were the areas in which we expected that the largest reductions would be made in the Kennedy Round. Quite frankly, I think that no one really looked at the situation on the machinery end of it, that these particular appliances were in that category as machinery and, therefore, I would say that possibly they have been overlooked not only by

Canadian manufacturers themselves but by the government. When they went into this machinery program everyone had in mind primarily production machinery. This was what we were looking at, although when the final decision was made it was decided to include servicing machinery as well as tools and accessories and control equipment and, therefore, the item is a little more complicated now than we anticipated it would be when the question of adopting a remission program was considered which we favour in principle.

Mr. Macdonald (Rosedale): You never made any representation to remove this type of domestic appliance from the machinery items?

Mr. Lang: Not that I am aware of. I could not say, but certainly in the Canadian Manufacturers' Association we did not look at that area.

Mr. Macdonald (Rosedale): I was interested in your last comment. The CMA favoured moving from the litigious type of determining class or kind made in Canada to the essentially administrative determination; does that represent the CMA's viewpoint?

Mr. Lang: Yes, we favour this principle of the newly established tariff item, and on remission of duty we are thinking particularly of production equipment which is not available. This should have the effect of reducing our costs.

Mr. Macdonald (Rosedale): Thank you, Mr. Lang.

The Chairman: Are there further questions?

Mr. Lang: I might add we are hopeful that it will also result in the development of the machinery industry, because we are not overlooking them.

Mr. Hales: I have just one question. Before the final draft of the Kennedy Round tariff agreements were drawn up, would the Canadian Manufacturers' Association be advised if certain changes were about to take place?

• 1705

Mr. Lang: We were notified on June 29, the same as anyone else, when they were made public.

Mr. Hales: Notified when?

Mr. Lang: On June 29, when the results were made public.

Mr. Hales: You had no advance notice?

Mr. Lang: We had no advance notice that this classification was going to be as such.

Mr. Hales: Were the negotiations treated as strictly confidential, so that this information could not be forwarded to such an organization?

Dr. Annis: We took every precaution possible to prevent such information going outside the delegation and the senior officials to whom we reported. It was very closely guarded, and we were gratified that there were no leaks; at any rate, none that we heard of.

An hon. Member: Is this the general rule in Canada?

Dr. Annis: Yes, sir. This is the general rule. It is a rule that all delegations and all countries are expected to abide by. In some cases the adherence has not been complete, but we have made a very serious effort to keep it complete in the case of tariffs.

Mr. Johnston: We got a lot of information from the Japanese before we ever heard from Canadian sources.

The Chairman: Is my memory correct, Dr. Annis, when I say that you indicated earlier in the hearings that, although you respected this rule of confidentiality very carefully, the team did from time to time seek additional information from various elements of Canadian industry, and so on, relevant to what was going on in negotiations?

Dr. Annis: Yes, sir, that is correct. From time to time we sought additional information, but without revealing the details of what we had in mind.

The Chairman: I recognize Mr. Clermont and Mr. Gilbert.

[Translation]

Mr. Clermont: Mr. Chairman, Mr. Pollock told us in his comments that nine Canadian companies made television sets for the domestic market and export, compared with 25 companies on the American market.

Mr. Pollock, do these nine Canadian companies make television sets entirely in Canada? Is it the cabinet and the equipment, or just the cabinet?

[English]

Mr. Pollock: Mr. Chairman, in reply to Mr. Clermont, the Canadian television industry designs and makes its chassis. Some of the subsidiaries of American companies receive their designs from the United States, but by and large those companies all manufacture their chassis and they buy cabinets made in Canada.

The Chairman: Any more questions, Mr. Clermont?

Mr. Clermont: No, thank you.

Mr. Gilbert: Mr. Chairman, I understand that the basic approach of the Canada-United States Auto Pact was product specialization, and that it has worked to the advantage of some Canadian manufacturers even though the Canadian government is subsidizing the automobile industry to the tune of \$50 million a year with regard to automobiles that are coming into Canada.

The Chairman: I think I would have to quarrel with your use of the figure of \$50 million.

Mr. Gilbert: I am just picking up a statement by the President of Canadian General Electric, and I am prepared to accept his figure for this argument, Mr. Chairman.

The Chairman: You are prepared to accept his statement?

Mr. Gilbert: Yes, for this purpose. Now, if that is the basic approach, then do these gentlemen feel we could use this basic approach with regard to other products that are manufactured in Canada or is the approach limited to the auto industry?

• 1710

Mr. Lang: I would say the approach is limited at this time. The automobile industry is unique, as you know. It is wholly owned and controlled in the United States, and there is good reason to have a rationalized automotive industry. You do not find the same situation in any other industry. You find some wholly Canadian firms, such as electrical firms, that would not benefit by any such agreement, and then you find others which have a parent-child relationship.

There has been an examination by a number of industries of whether there is some potential benefit perhaps in a different type of agreement than the automotive agreement

with the United States. I believe the forest products industry and the aircraft industry see some benefit in this, but from what we can deduce from the press and other sources, Congress is not looking very favourably at any extension of the automotive agreement to other industries. In fact, they seem to want to avoid discussing even the extension of the automotive agreement because there are areas, presumably, where perhaps the agreement has resulted in the transfer of the manufacturer from the United States to Canada, and this gets into a very delicate area. So, for the time being, we do not visualize an extension of this system, at least for a few years until perhaps times change somewhat.

The Chairman: Mr. Hales?

Mr. Hales: I have just one question on the adjustment assistance. The brief states that the CMA came to the conclusion that adjustment assistance is acceptable in our competitive enterprise system. I would ask Mr. Pollock if their Association has given any thought or consideration to paying adjustment assessments to Canadian subsidiaries of United States companies in Canada? Do they feel that this adjustment assistance should be paid to American subsidiaries in Canada?

Mr. Lang: As I recall it, this question was asked Mr. Drury at a luncheon meeting the Association sponsored in Toronto last Wednesday. His answer was that if it is a Canadian firm and it is incorporated in Canada, certainly it is entitled to apply in the same way as a strictly wholly-owned Canadian firm.

However, the conditions under which it might get a loan would be somewhat different because they would certainly expect the firm to find that financial assistance from its parent company in the first instance. Of course, a wholly-owned Canadian firm would not be able to do this, so the conditions would be somewhat different but certainly they are not precluded from applying.

Mr. Hales: So you have not come up with any fast rule on it. Well, I will not pass judgment at the moment.

The Chairman: It might be of interest to the Committee to know that after Mr. Gilbert raised this point several weeks ago I got a copy of the United States Trade Expansion Act of 1962, which gave authority to the American government to take part in the

Kennedy Round in the way in which it did. Secondly, it sets out their adjustment assistance program. As far as I could see from looking in the Act there is nothing in the American adjustment assistance program to prevent subsidiaries of Canadian firms or firms of any other country in the United States from qualifying for adjustment assistance from the American government because of the Kennedy Round. They do not seem to limit their adjustment assistance program for firms in their country to those firms which are wholly-owned by United States citizens or residents.

Mr. Macdonald (Rosedale): As long as they are established in the United States.

The Chairman: That is right. So, to this extent it would not appear that our policy is a departure from whatever has been done in the United States up until now, anyway.

Mr. Lang: Mr. Chairman, I might comment here that in our studies of adjustment assistance we found that some 14 applications had been made by firms and industries for adjustment assistance under the Trade Expansion Act of 1962, but none of them qualified.

The Chairman: It was not because of the nature of their ownership?

Mr. Lang: No, it was not because of this. It was because of the fact that there really were very few reductions in duty made by the United States over the past five years, because the Kennedy Round just went into effect in January of this year. One of the important criteria in there is that you have to prove you have been injured as a result of concessions made by the United States under tariff changes and, consequently, it has been almost impossible for anyone to qualify under that.

• 1715

The Chairman: I suppose the real test of the program, both in the United States and here, will come now that the Kennedy Round is actually in operation.

Mr. Lang: It is still too early to know just how effective or to what use it is going to be put, but I think it is a good indication at least that we are prepared to meet circumstances if they should develop along these lines and assist firms not only in adjusting in the domestic market to import conditions but providing an opportunity for Canadian firms

to seek export outlets for their goods. This latter provision is not contained in the United States Trade Expansion Act.

Mr. Gilbert: Mr. Chairman, do you think the government assistance to Canadian manufacturers will in any way infringe upon the concept of free enterprise so strongly advocated by the Canadian Manufacturers' Association? Does it not smack of a little socialism?

The Chairman: It would be better if I let them answer that. They said in their brief that it does not, and as Mr. Pollock is waiting to put on his other hat as President of Electrohome Limited and present his brief, at least in summary fashion, perhaps we should seek another opportunity for this most interesting philosophical discussion. If you want my opinion, I am certainly not adverse to this type of government support of Canadian enterprise in productivity for the benefit of all concerned.

Is there anything further you wish to add, Mr. Lang?

Mr. Lang: I am sorry, I did not hear all of Mr. Gilbert's question.

The Chairman: Perhaps you may want to pursue this privately.

Mr. Johnston: If we are coming to the termination of the hearing I would like to go back to an earlier question asked by Mr. Gilbert and add one comment as a clarification, or I can leave it until the end of the meeting.

The Chairman: If the members have completed their questions I want to ask a very brief one.

Mr. Macdonald drew attention to the paragraph in your brief which indicated that you support in principle the new machinery program. I take it that you have since had an opportunity to study the administrative arrangements for this program and you have no objection to bringing before us at this time the way in which these arrangements are supposed to work?

Mr. Lang: No, it seems to me they are predicated pretty much along the system that Britain has had, and we find no objectionable features to them. We are obviously going to be watching the situation quite carefully, and if we find any bugs in it we will make our position known to the Department of Industry.

The Chairman: But at the moment you find no objectionable features to the structure of the program and its administration, as it has been made known publicly?

Mr. Lang: That is right.

The Chairman: I have one other question. Do you feel that attachments, control equipment and tools for use with machinery should not have been included under the item, and here you are not referring to electric toothbrushes and similar things with attachments to production machinery? How would you suggest the question of remission of duty, and so on, for these items, attachments, tools, and so on, should have been handled?

Mr. Lang: As I said previously, I think our first proposal was that a program of this kind should be limited to production machinery. We had in mind, frankly, the amalgamation of the two items, the previous 42701-1 which covered machinery of a class or kind made and 42720-1 which covered machinery not made. I think we would have been just as happy if the initial program had been limited to the amalgamation of these two items which are the major items, and then later perhaps had brought in, these other items. We visualize certain problems here in control equipment, not only in tariff classification, but in remission.

The Chairman: With respect to tooling particularly you were not suggesting in your brief that because a tool was attached to a machine not made in Canada that it be allowed in duty free even though the tool itself is being made in Canada or could be made in Canada?

• 1720

Mr. Lang: We understand these problems are being given serious thought and consideration by the Department of Industry and all of these accessories, attachments, tools and control equipment, where they are available from Canadian sources of supply, will not be granted remission. This is one of the areas of, shall we say, interest and concern and we are going to be watching that situation carefully.

The Chairman: This also applies to the electric toothbrush category and the comfort appliance category as well in that the same criteria of availability, and so on, will apply. If these criteria are met, then importers will not be able to bring these things in duty

free—at least the 15 per cent rate will apply to the comfort category and to the electric toothbrush category in the same way it would apply to production machinery.

Perhaps I should save this question for your own presentation, Mr. Pollock, but I presume the Department of Industry has made it its business to obtain the data for its data bank with respect to these appliances which are not, strictly speaking, categorized as production machinery so that they will be able to apply the availability test, and so on, to them. Have they been in touch with the people in the comfort appliance side?

Mr. Johnston: They have been to see various firms.

The Chairman: Perhaps Mr. Drahotsky could tell us. You are building up data on the small appliance segment that seems to have tumbled, rightly or wrongly, into this tariff item. Do you have information to apply the availability criteria?

Mr. Drahotsky: Yes, Mr. Chairman, we are seeking information on all of the products classifiable under the new tariff item 42700-1.

Mr. Hales: Mr. Chairman, I hesitate to interject, but has there been a change of responsibility here? The Department of National Revenue used to make the rulings on all these tariff items and now it is switched to the Department of Industry?

The Chairman: They are reviewing in detail some of the things we have been discussing. Perhaps Mr. Halvorson and Mr. Drahotsky will correct me, but I think the Department of National Revenue makes the determination into which tariff item a particular machine falls. If it falls under 42700, then the machinery division of the Department of Industry decides whether the part is entitled, on the basis of availability and public interest, to a remission of duty. Have I summarized your approach?

Mr. Drahotsky: That is correct.

Mr. Hales: I doubt the proficiency of the operation; however, we will proceed.

The Chairman: This is something we have been considering all along. However, I think this summarizes the way it is supposed to work. The remission certificates are studied by the Department of National Revenue people in the field, and so on, as they are

involved in either collecting the duty or not collecting it, depending on the existence of remission certificates.

If we have no further questions or comments with relation to the presentation of the Canadian Manufacturers' Association, I wish to thank them for their most useful and informative presentation to us today.

I would ask Mr. Pollock not to move from his seat but he can leave his colleagues at his right hand if he wishes. Perhaps he can briefly summarize for us the document he is presenting.

Yes, Mr. Johnston, you wished to say something?

Mr. Johnston: I wish to comment on a question that Mr. Gilbert asked about the comparison of statistics in Mr. Smith's speech with those in the CMA brief. I would point out that Mr. Smith was talking about the absolute level of productivity and the CMA brief was referring to the rate of productivity growth lagging.

The Chairman: We will excuse you, gentlemen. I understand you have to catch a plane.

I will ask the two associates of Mr. Pollock to come forward—Mr. Sykes, Executive Vice-President, and Mr. William N. Hemphill, Secretary, of Electrohome Limited.

Mr. Pollock, perhaps you would merely summarize your presentation. I think we have actually covered much of the ground. As I have said, we have had a chance to study this document even before your presentation today, but we wish to give you a separate opportunity to discuss it with us in your capacity as President of Electrohome Limited.

Mr. Pollock: Thank you very much, Mr. Gray. First of all, I wish to thank you for the hearing that you gave the members of the Canadian Manufacturers' Association on all the matters which we brought before you, and on which you allowed us to expand in endless detail.

• 1725

With me today from Electrohome Limited are two members of our organization, Mr. Donald Sykes, Executive Vice-President, and Mr. W. N. Hemphill, Secretary.

We have made a presentation to you. We are here as a Canadian-owned company. As such, I want it understood that we are here in furtherance of our brief which presents a situation resulting from the Kennedy Round

of GATT negotiations which, in our opinion, can only be classified as anomalous and most unfair to our operating position.

Our case indicates an inconsistency in the action the government has taken in the Kennedy Round negotiations and in the provision for its implementation.

Mr. Sharp appeared before your Committee and made a statement about the Kennedy Round. We adopted this item-by-item approach for two reasons, the first of which is of no interest here. This selective approach enabled us to use the Kennedy Round to help rationalize our tariff structure.

We are sure that the case which we have presented indicates what must have been a complete oversight on the part of the negotiators, because there is no rationale to it.

Why have the negotiations been allowed to result in a one-step reduction of $\frac{1}{3}$ in the previous tariff for a group of home appliances which serve the public in a manner very similar to other appliances and home furnishings which are staged in five steps over five years? The appliances classed with machinery are humidifiers, dehumidifiers, dishwashers, floor polishers, electrical can openers, electrical food mixers, hair dryers, electric knives, electric toothbrushes, shoe polishers, etc., all sold through wholesale retail channels to the public. In contrast, turning lathes, punch and metal forming presses, steel running equipment, sawmill equipment and large drying ovens, all of which are sold to manufacturers or producers, are truly pieces of machinery.

It is our sincere opinion, that there should be rectification of the anomalous tariff classification which we have brought to the Committee's attention. We therefore ask that you draw these matters to the attention of those who have it in their power to fulfill Mr. Sharp's expressed purposes.

Mr. Chairman, we have discussed this matter at quite some length on the CMA hearing. We would certainly be interested in hearing any further thoughts you might have.

The Chairman: Have the members of the Committee any further thoughts or comments to add? Any changes to make with the representative of Electrohome or with the officials?

Mr. Macdonald (Rosedale): Mr. Pollock, I take it your position is that, despite the consultations in advance, you did not think there would be any change in the machinery tariff

and therefore, you did not make any particular representation about reclassification or the negotiating of a reclassification?

Mr. Pollock: Mr. Chairman, in most cases in business these classifications are known as numbers. They are referred to as machinery, and things of that sort. Generally, they are referred to as numbers, and the number is used so often that it is considered a tariff classification that is adaptable to that particular product.

It is my understanding, from hearsay—I have no specific knowledge—that various people have discussed this matter with government departments, but who, or with whom they had the discussions I could not say. I know that several people have said that they have talked about this, but we, on our part, have not.

Mr. Macdonald (Rosedale): You did not say in advance, “While you are going to be dealing with machinery remember that Mr. Hale’s electric toothbrush is not really machinery”?

Mr. Pollock: That is right. We did not make this statement.

Mr. Macdonald (Rosedale): Dr. Annis, what opportunity was there for consideration of this in advance of the final negotiations?

Dr. Annis: I suppose, in a sense, consideration was taking place at two different places. Mr. Burns and I were in Geneva, at least for most of the time, when the machinery program was formulated. That program was formulated in Ottawa. It was formulated after discussion, at least to some extent, with the Canadian machinery producers and users. The decisions on the scope of the machinery program were made in Ottawa; that is, on the tariff items that were to be included in it, and the fact that those items would be included in whole. Those decisions having been made, the delegation in Geneva was authorized to offer those items as concessions in the Kennedy Round, and did so.

• 1730

I do not know that I am in a position to shed any further light; at any rate, not without going beyond what would be proper, in the sense of talking about what were really private...

The Chairman: I believe I understand your difficulty, Doctor. I think you have gone about as far as you can on that.

Mr. Hales: Mr. Chairman, may I ask Mr. Pollock if he had assumed that the representations that the trade had made on this classification were falling on the right ears?

The Chairman: I do not think Mr. Macdonald has completed his questions.

Mr. Pollock: In response to that question, there was the sort of general conversation that goes on. We actually did not expect, in the whole rearrangement of the tariff, that appliances would be included in machinery. It just was not something that we thought about. We did not think it was something that should be considered.

The Chairman: May I clarify the situation, at least for my own benefit. The pricing of these appliances in the machinery item was not done in the course of, or because of, the Kennedy Round negotiations just completed, but was something which existed before these negotiations? Is that right?

Dr. Annis: Yes, sir, that is correct.

The Chairman: And at least in part, if not in large part, it resulted from a Tariff Board ruling of some years ago? That at least had some impact?

Dr. Annis: Yes; although I think it would possibly be more accurate to put it in terms that the Tariff Board ruling, or such rulings as there are, confirmed classifications which had been adopted by the Department of National Revenue in interpreting the provisions of the statute.

The only reason for my making that addition to what you said, sir, is because otherwise one might get the impression that a Tariff Board decision had resulted in a change in classification.

The Chairman: It confirmed the pre-existing classifications. Therefore, what actually happened in the Kennedy Round negotiations was that the negotiators continued on the basis of the pre-existing classification, or item, which included these comfort appliances, and what you ended up with, namely, the inclusion in the new item of comfort appliances, was not something that was specifically negotiated?

Dr. Annis: Yes, sir.

The Chairman: It would appear, from what you and Mr. Pollock said, that unfortunately the industry concerned with these appliances,

perhaps inadvertently, did not make specific—at least not that we know of at the moment—or direct written representations in the same way that other industries made representations through briefs to the special tariff study Committee, otherwise your attention would have been drawn more specifically to the implications. I am just trying to picture the atmosphere in which you carried out your discussions.

Dr. Annis: Mr. Chairman, I would agree with the way you have put it. Might I add one further comment, although here I am getting close to policy as opposed to technical considerations.

• 1735

There have been a number of references to injury and to inequalities. In that regard I would like to draw attention to what I would consider to be facts of the case. It is perfectly true that the results which flow from this agreement introduce differential treatment between these home comfort appliances which are classified as machines and consequently fall under the machinery program, and a number of other appliances which are classified otherwise such as toasters, refrigerators, white goods and so on. It also is perfectly true that this means a deeper cut on these appliances which are machinery than on the others, and that the cut is made in a single step. Now possibly this could be regarded as unfair. It is a little difficult to speak of an industry because after all an industry is composed of a number of firms whose product mix will not always be the same, but if one is thinking in terms of the Canadian electrical industry I would like to suggest that on average the depth of cut in respect of its products in the Kennedy Round was rather less than the average in respect of other profitable items; certainly it was less than that applying to machinery. The basic reason for Mr. Pollock's complaint here is that the products which he is talking about, which represent only a part and rather a smaller part of the output of the Canadian electrical industry, are being treated as machinery.

The greater part of the product line of the Canadian electrical industry is being subjected under the Kennedy Round Tariff concessions to rather lighter cuts, lighter not only than these affecting the humidifier and air conditioner sort of thing but lighter than

those applying to most other iron and steel products and what I would regard as other comparable items. In particular, what the industry usually refers to as white goods got off pretty lightly in the Kennedy Round. A number of present rates that are 22½ per cent in this field were cut to 20, which is a pretty small cut in a tariff negotiation of this magnitude, and one item, automatic washing machines, on which the rate was already 20, was not cut at all. And I might say that our United States trading partners were very disappointed that we did not cut the rates of duty in this field more than they in fact were cut.

What I am saying here in a way goes beyond the immediate problem but it does seem to me that it is relevant if one is looking at the position of the industry as a whole. I think it is also relevant to keep in mind what I am afraid, has been largely over-looked today, that this is an area where the United States rates were cut 50 per cent almost right down the line across the border. Possibly I could even leave out "almost". Could you speak on this, Mr. Burns?

The Chairman: Perhaps you also could give details on the financial cuts, including those on home comfort appliances, if any?

Mr. Burns: Mr. Chairman, I think I can confirm what Dr. Annis said, that in the electrical appliance field in the United States there were 50 per cent linear cuts. I can indicate a couple of examples that will give some idea of what cuts were made. In the United States there is an item for air conditioning machines and parts, and they imported from Canada in 1966 \$2½ million worth of these goods. The pre-Kennedy Round rate is 11 per cent, the final rate will be 5½ per cent.

The rate on another item, fans and blowers, for which we had three quarters of a million dollars worth of trade in 1966, is going from 14 per cent to 7 per cent.

• 1740

I suppose of particular interest to Mr. Pollock are the substantial cuts that have been made in entertainment appliances—radio television combinations, television sets and so on, in respect of which Canada has been a significant supplier of the United States—with final rates in that area being 5 per cent, 6 per cent, 6½ per cent, with the highest rate being 7½ per cent.

Mr. Pollock: Mr. Chairman, we are referring exclusively to the home comfort field. Regardless of what cuts have been made in the United States—we know they have made very broad cuts—I see no reason, just because there is a cut of 50 per cent in the United States, that there need be a one-third immediate cut in Canada.

Our premise in this whole matter is that these two classes of products should be completely segregated and a new classification established, as we term it, under “electro-mechanical domestic appliances with self contained electric motors.” We feel this is important because these are completely out of their category.

The Chairman: Mr. Halvorson, is there anything you want to say at this time which fits into National Revenue's responsibility?

Mr. Halvorson: No, Mr. Chairman. I think everything has been pretty well said on this whole subject, including how these things happened to be classified under the items for machinery. This is long standing practice. All these products, generally speaking, have electric motors, are mechanical, and there never was any other provision in the tariff except the provision for machines. This is why they are under these items.

The Chairman: Mr. Drahotsky, have you any comments you want to make on the Department of Industry's attitude?

Mr. Drahotsky: I have one observation, Mr. Chairman. Perhaps in all fairness to the industry it should be mentioned that the so-called anomaly did not become apparent before the Kennedy Round concession rates became available to the public. Under the previous classification the so-called home comfort appliances, at least, those that were of a class or kind made in Canada, directed the same rate under what was tariff item 42701-1 as they would if they were treated as electrical apparatus, and the rates were 22½ per cent. The so-called anomaly arises as a result of the fact that under the machinery program the rate is coming down to 15 per cent whereas under the electrical apparatus item it is coming down to only 17½ per cent. But this of course was not known at the time when the machinery program was being discussed with the industry.

Mr. Pollock: Mr. Chairman, I wonder if Dr. Annis could clarify things for us a little further. This whole matter of tariff item 42700-1

revolves around machinery importation, it has really nothing to do with the appliances. All of the provisions and thinking that have gone on in connection with this had to do with the importation of machinery that is made in Canada or not made in Canada, and this is the problem that is being dealt with, not the group of appliances. These appliances have to compete with all the other appliances that Dr. Annis referred to and, therefore, it is quite a different matter.

Now, I wonder whether Dr. Annis could give us an idea of the dollars involved? It would seem to me that the ratio of dollars involved in importation of these two categories would be something in the order of 600 or 700 to one. I do not know; because of the mixture of things we have not been able to pick this out, but it is so minuscule in comparison with the machinery category that for them to be included is completely anomalous as we have said.

• 1745

Dr. Annis: In terms of the dollar amounts involved, as you have said Mr. Pollock statistics are not available for the imports directly from the D.B.S.—imports of these so-called home comfort appliances—although the Department of Industry made a sort of sample survey and probably Mr. Drahotsky could speak more accurately than I if you want to get into the ways in which it was made.

At any rate, I do know the results of that and the figures or estimates at which they arrived as regards the imports of these domestic machines, you might call them, would be of the order of \$20 million a year of which I think about \$7 million a year would be of the class or kind not made in Canada under the former rulings and consequently would have formerly been dutiable at 7½ per cent, and approximately \$13 million would have been classified as made in Canada and consequently dutiable at 22½ per cent. Those figures are approximately correct, are they not, Mr. Drahotsky?

Mr. Drahotsky: Yes, they are, but perhaps I should point out that the survey covers all domestic electrical imports. It covers not only what you refer to as home comfort appliances; it covers dishwashers, garbage disposal units, floor polishers, food mixers, juicers, blenders and parts and if you were to look at our estimate of the imports of the type of product that I understand you mean by home

comfort appliances, namely, air conditioning units, humidifiers, dehumidifiers, our estimate shows that their imports in 1966 under tariff item 42700-1, in other words that would now be ruled as admissible under 42700-1, came to something like \$4 million. This is a very rough estimate because, as Dr. Annis points out, no exact statistics are available.

The Chairman: Now that we have all the background to this and some of the context in which these things were done, what is the formal procedure available to a company such as this that would like to ask that a reclassification be carried out, whether it is home comfort appliances or something else? If a company wants to suggest to the government that there be a change in classification of an item with respect to its status in the tariff, just what procedure do they follow?

Dr. Annis: Well, resolutions or proposals relating to the tariff, or to changes in the tariff, are normally introduced into the House of Commons by the Minister of Finance at the time of a budget, and the usual practice for those who seek such changes to follow is to make representations to the Minister of Finance asking him to make proposals of this sort to his colleagues and to Parliament.

It is not at all unusual that if he is to do this, a negotiation is first necessary if...

The Chairman: Within the GATT.

Dr. Annis: Yes, within the GATT.

The Chairman: What about the reclassification? These gentlemen make two proposals for correcting their problem; one is to set up a new item, the other is a reclassification to move these goods into different items. Is a reclassification an administrative procedure or one requiring parliamentary action?

Dr. Annis: A reclassification, that is a change in the Department of National Revenue ruling as to the proper classification of goods, is a matter for consideration by the customs officers and the Deputy Minister of National Revenue, and then the avenue of appeal from their decisions for any one who is dissatisfied with them is to the Tariff Board.

• 1750

Mr. Hales: Mr. Chairman, in view of the fact that this is all part of the Kennedy Round of Tariffs Agreement, we were told earlier today that this would be impossible and there were too many hurdles to climb or get over, and therefore the Minister of the

Department would be very reticent about bringing changes into the House. He could not because it is an international agreement and he is bound by an international agreement. So, I would say on that basis we cannot change it, we cannot change it in the House and I as a member of Parliament have nothing to say about it.

The Chairman: If I may say so, exactly as Dr. Annis said, I think we should segregate this issue into several parts; one part involves dealing with the text of the resolution before us now.

Mr. Hales: If somebody can show me how I have a voice in...

The Chairman: Well, you have the same voice in this as you would in any other tax legislation.

Mr. Macdonald (Rosedale): I just want to be helpful to Mr. Pollock and his problem and perhaps he can be helpful to us. Mr. Pollock, if we make this reclassification, and I can understand Dr. Annis' reticence to commit the government to a renegotiation and perhaps this is something that we as government members should undertake to bring to the attention of the Minister, do you have domestic competitors who are going to take exception to our treating your position in this way? I ask you in all candour.

Mr. Pollock: I would say no, Mr. Chairman. We have talked to several of the other companies involved in the business and asked them if they would come with us, but we were not able to get them to do so but we felt that we would like to come here. So far as we are concerned, we would benefit from a reclassification and the other members would benefit from it. I am sure they will not be in any way inhibited by the change that we are talking about.

Mr. Macdonald (Rosedale): The change is confined to the finished product essentially and if firms that may be competitive with you for example import an electric motor, their position will not be adversely affected?

Mr. Pollock: I would think most of the electric motors used are made in Canada.

Mr. Macdonald (Rosedale): So just to pick up from where Mr. Hales left off, you would like to see the Minister of Finance or the representatives of the International Economic

Relations Division of the Department of Finance go back and say there appears to be a situation here under the machinery tariff which is creating damage and we would like to renegotiate this. We would like to get your consent to a different tariff treatment in the item than that which we originally made at Geneva.

Mr. Pollock: So far as we are concerned we suggest in our brief a classification of "Electro-Mechanical Domestic Appliances with self contained electric motors," and we would certainly hope that it might be so arranged, as a new item, to be staged in five steps. It is the same as all the other appliances, because we are competing with the other appliances for the patronage of Canadian customers.

Mr. Macdonald (Rosedale): Apart from the consumer interest, and the interest perhaps of some of your competitors who might like to tie a ball and chain around your ankle, there is no Canadian interest that we should be thinking about also in competition with this particular request; I mean, none that you can think of anyway?

Mr. Pollock: No sir, you are quite right on that. We feel that there is enough competition to keep the consumer's position really well taken care of.

The Chairman: Mr. Pollock, you are not suggesting, however, that the final parliamentary disposition of the whole Kennedy Round package be held up until this problem or anomaly is renegotiated?

Mr. Pollock: No, sir. This would certainly be a case of the tail wagging the dog.

The Chairman: So what you are suggesting is that after Parliament disposes, hopefully favourably, of the whole package containing the resolution, that the government take action under the clause in the GATT which Dr. Annis has told us about to renegotiate this particular item in a way which will take into account the very useful points you have brought to our attention.

Mr. Pollock: Yes, sir.

Mr. Macdonald (Rosedale): Or, Mr. Chairman, that the government consider action right now and perhaps incorporate it in this resolution.

Mr. Hales: In view of what Dr. Annis told us earlier today I do not think we should

delude ourselves or delude Mr. Pollock that there is a hope in the world of rediscussing the Kennedy Round of tariffs. It is an international agreement and you have to talk to all the countries. Therefore I do not think we should delude ourselves in this.

Mr. Macdonald (Rosedale): I would like to straighten Mr. Hales out on this. There is all kinds of scope under the general agreement to renegotiate items and to renegotiate them between sessions. Am I not right, Dr. Annis, when I say that if the government decided to do this—and I am not putting you in the position of recommending that they do—that there is all kinds of international procedure to deal with this particular type of item if the government wanted to change it?

Dr. Annis: There are procedures available; there is a mechanism available. It is a procedure that is rather difficult to apply. I would not want you to get the impression that it was an easy or a quick route. On a somewhat different tack I might suggest to Mr. Pollock that his recommendation that a separate item be established to cover these appliances is in a sense an incomplete recommendation because he did not suggest what rates he would like to see applied or what compensation he would suggest be offered for the withdrawal of the present concession. Possibly it would be unfair to ask him the second question. I have a pretty good idea what some of our trading partners would ask for, but I will not volunteer my thoughts in that regard. With respect to the first part of it, it seems to me it is a fair question and, in particular, if such an item were to be established, recognizing that prior to January 1 of this year these products fell under items with a "class or kind" distinction, would it be his suggestion that they continue to be segregated on the basis of class or kind "made in Canada" and "not made in Canada" and that we continue to preserve the former 7½ per cent rate in respect of those items of a class or kind "not made in Canada"? Also, what are his thoughts about the rate that should apply either to the whole category or to the class or kind "made in Canada" if the old distinction were to be continued?

Mr. Pollock: Mr. Chairman, we have not been presumptuous enough to suggest anything of this sort. We feel this matter is definitely not in the interests of our operation. We are drawing it to this Committee's attention, and we feel that it should be looked at.

We believe the Committee should understand this situation. We also feel that it is human to err, let us say, and the collective actions of people are certainly not sacrosanct. Surely there must have been some changes made in GATT negotiations. It is not a matter that is like the Bible, let us say. Surely there would have been some changes made in other cases in GATT negotiations, and under those circumstances we were very hopeful that something of this sort would be able to be done, because the situation is completely anomalous and does not have a rationale to it.

The Chairman: I think there is probably a consensus that there is an anomaly here. The point that I at least wanted to make clear was that obviously the negotiations are completed, they are not partially open, and it is a question of what procedures can now be taken to help deal with this very important problem which you brought to our attention. You have agreed with my suggestion that we do not hold up the parliamentary disposition of the whole package pending the correction of your problem. I see you are nodding your head by way of assent.

Mr. Pollock: Yes, sir, I did say that before.

The Chairman: Dr. Annis and his departmental colleagues have sketched for us the procedures available for correction which would involve, I gather, renegotiation under certain injury provisions in the GATT. I did not understand him to say that it would be impossible to take these steps, but merely that they would be lengthy and complicated and he would not want to anticipate the timing or the results.

Dr. Annis: No, sir, and in addition, of course, this would involve a policy decision which would be a decision to be made by ministers.

• 1800

The Chairman: It would appear very important for Electrohome, and those who share its views, to supplement the presentation to us. It would obviously be one way of bringing this to the attention of the policy makers and with some other formal contact, possibly with both the Department of Finance and the Department of National Revenue, to

pursue some of these avenues which we perhaps could help sketch out for you. Mr. Macdonald?

Mr. Macdonald (Rosedale): Mr. Pollock, what would your reaction be if we proposed leaving the item in under 42700, which is the new machinery tariff item, but stage the reduction over four years?

Mr. Pollock: We feel this would be a logical approach to take. The five steps, the same as the other appliances, and the same as is being done in the United States for exactly the same products. However, we felt it was not possible to take it out of the category and still do this. As I say, we hope that the new category will first of all be looked at from a dutiable point of view in relation to other appliances and, second, that it will be looked at from the point of view of the five steps which apply to other appliances with which we are competing.

Mr. Macdonald (Rosedale): There is a two-fold aspect to your submission; to create a new classification and then stage the new classification.

The Chairman: If we could take another minute, you raised a very interesting point which I think we should ask Dr. Annis about. That is, does Canada retain the independent ability to make its own decisions on staging of items or is this part of the package?

Dr. Annis: Yes.

The Chairman: Or the staging of individual subsections within an item. If this is a difficult question, perhaps you could tell us about it tomorrow or Thursday.

Dr. Annis: This is a complicated question and we must draw a distinction between this and the sort of case that we were talking about before noon involving, for instance, motors or switch gear, and that sort of thing. In those cases Canada very definitely had the right, and has the right, to stage in five equal steps if it wished to do so. This is somewhat different because it involves an item which was part of this machinery program and the settlement that was made with respect to the machinery program. What Mr. Pollock is now suggesting involves, as one part of the proposal, taking in effect these items out of

the machinery program and treating them separately. The point that I want to make here is that the machinery program as such was negotiated on a different basis from other items because it involved a complex of things, and an understanding on both sides that the whole of the complex would be introduced at one time. Therefore, to change that would involve a change in what was agreed to, and I would draw the conclusion that in order to withdraw from the machinery program and from that item something which previously had been understood would be included in it would necessitate the reopening on the matter with our trading partners.

The Chairman: A renegotiation?

Dr. Annis: Yes, a renegotiation. It is the same thing and it is a renegotiation of a sort that could be cultivated under the GATT rules. The GATT rules provide for renegotiations. They just make it rather difficult.

The Chairman: Mr. Gilbert, you are next and then we will ask Mr. Pollock for any final comment he wishes to make.

Mr. Gilbert: I have one short question, Mr. Chairman. Mr. Pollock, do these changes affect your domestic market and your export market, or is it just confined to the domestic market?

Mr. Pollock: Part of the domestic market. We are working hopefully to sell some of our humidifiers in the United States. At the moment we do not have orders in that area but we are working towards this. However, we are concerned with the effect on our domestic market.

Mr. Gilbert: You do have a little trade-off or set-off there with regard to the United States reductions in the field for your export trade. It may not be very much comfort, but you have some help there.

Mr. Pollock: The United States reduction took place 1 per cent at a time, not $7\frac{1}{2}$ per cent at a time.

• 1805

The Chairman: Am I correct in saying that at the moment you have in effect 15 per cent protection on goods in this class available in Canada while some of the existing

United States tariffs are still at just about the same level or lower than 15 per cent even without the staging? That question is the result of Mr. Burns' comments.

Mr. Pollock: They are not as high as that. I think they are around 9, 10 or 11 per cent; are they not, Mr. Burns? We have a slight edge on that basis but, after all, you have to think about the difference between the two countries—the markets, the production and the whole matter.

The Chairman: I am not quarrelling with your assessment of the impact, I just wanted to know if I am right in saying that we still retain an edge in the level of our tariff system compared to the United States?

Mr. Pollock: Yes, sir.

The Chairman: Are there any further comments?

Mr. Hemphill: Dr. Annis, you made one comment with the reference to changing the name of a tariff item or setting up a new tariff and calling it home comfort appliances, or something similar. Would it not require negotiation with GATT to make that change in our Canadian tariff?

Dr. Annis: Not to change the nomenclature, provided the rates and any complementary undertakings with respect to them were adhered to. I would take it, however, in this case that if we maintained a rate not in excess of 15 per cent on these articles that it would not meet Mr. Pollock's point, it would not do him any good.

Mr. Hemphill: No.

Dr. Annis: I should add the further point that in respect of the goods included in this machinery program—those which were classified under 18 items which now have been superseded by one very broad new item—the undertaking called not only for a maximum rate of not more than 15 per cent, it also called for the establishment of a remission procedure in respect of which the Canadian Government stated its expectation that the average rate of duty on the whole item would be less than 9 per cent and committed itself to consult and to take prompt corrective action if in fact the rate should work out at more than 9 per cent in any year.

The Chairman: I think we should thank Mr. Pollock and his colleagues from Electrohme Limited for giving us a better opportunity to understand their problems. Perhaps this discussion has helped point out some possible avenues to a solution which they may want to pursue further after they leave us.

Mr. Pollock: Mr. Chairman, we appreciate your giving us a hearing and we appreciate some of the advice you have given us. Thank you.

The Chairman: The meeting is adjourned until Wednesday afternoon at 3.30, at which time we will hear from the Minister of Industry.

APPENDIX V

THE CANADIAN MANUFACTURERS' ASSOCIATION

67 Yonge Street, Toronto 1, Ontario

January 10, 1968

Mr. H. Gray, Chairman,
and Members,
Standing Committee on Finance, Trade
and Economic Affairs,
House of Commons,
Ottawa, Ontario.

Dear Mr. Gray:

The Canadian Manufacturers' Association welcomes the opportunity of presenting its views to the Standing Committee on Finance, Trade and Economic Affairs pertaining to the resolutions covering proposed amendments to the Customs Tariff to implement Canada's commitments under the Kennedy Round agreement.

The Canadian Manufacturers' Association

The Association is a non-profit, non-political organization of some 6,400 members located in over 600 cities and towns across Canada. It has a permanent staff of 110 and is representative of some 75 per cent of the manufacturing production of Canada. A point of some special significance is the fact that, while most of the large manufacturing establishments hold membership in the Association, more than 75 per cent of member companies employ fewer than 100 persons. Hence, the problems and needs of small manufacturers are of particular importance to the Association.

The by-laws of the Association specify two fields of enterprise, namely, industrial promotion and export promotion, as the interests which the Association is dedicated to serve. The Association is now in its 97th year of operation. During this entire period, its interest and involvement in the development and promotion of Canada's domestic and export trade have been of paramount importance.

The Kennedy Round Package

The Resolutions which are now under study by this Committee comprise only one part of the package deal to which Canada subscribed

in Geneva in what is commonly referred to as the Kennedy Round agreement. The Resolutions do not include the proposed changes in duties on imported chemicals which we understand will be covered in a subsequent resolution. No mention is made in the Resolutions of the many reductions in duties made by the United States, Europe and Japan, all of which should bring substantial benefits to Canadian exporters. Finally, and this is most important of all, no reference is made to the new International Code on Anti-Dumping to which Canada subscribed in the Kennedy Round agreement. New Canadian legislation on anti-dumping will require to be submitted to Parliament for approval by July 1, 1968.

The Minister of Finance has stated on many different occasions that the Kennedy Round agreement is a package deal, a give and take proposition comprising several distinct parts.

He has emphasized that, in order to properly evaluate the agreement, one must look at the whole package and not just one facet of the agreement in isolation. This is what we propose to do in this submission, namely, to review the total aftermath of the Kennedy Round negotiations in terms of their impact on the manufacturing industry and the economy generally.

In the Kennedy Round, ten of the world's largest trading countries participated in the negotiations on a linear basis. While the set target of 50 per cent reductions was not reached in all areas, the results achieved were significant, averaging a little more than 30 per cent. Because a large proportion of Canada's exports is in foodstuffs and primary products on which foreign tariffs were already low, Canada could not accept the linear method of approach and undertook to grant tariff concessions equivalent in value to those received from its trading partners.

Tariffs and Canadian Imports

Canada's tariff cuts are estimated to be slightly below 25 per cent on the average, although cuts were made in virtually every sector of the Canadian tariff. Only a few

categories of products were not subject to at least some lowering of the current duty rate. About \$2½ billion worth of imported goods will enter Canada at reduced duty rates or free of any duty as a result of the tariff concessions made by Canada in the Kennedy Round.

In examining the Ways and Means Resolutions, it is noted that most of the tariff reductions made by Canada will be phased over the next four years with the final reductions being made in 1972. In a number of instances, however, the full amount of the negotiated reductions has been made effective as of January 1, 1968. In other instances, the initial cuts made on January 1, 1968, total 50 per cent of the reduction negotiated. We are at a loss to understand why Canada considered it necessary to adopt this policy of accelerating some tariff reductions in advance of the dates required under the Kennedy Round agreement.

In contrast to the action taken by Canada, it is pointed out that the United States, under the terms of its Trade Expansion Act of 1962, is phasing out its tariff reductions in approximately five equal stages, commencing January 1, 1968, and ending January 1, 1972. We are concerned that the acceleration by Canada of some of these tariff reductions could worsen our trade performance in 1968 to the detriment of our balance of payments position.

One of the most significant moves by the Canadian government was a cut of one-third in our Most-Favoured-Nation Tariff on imported machinery. The current dual rate system of 22½ per cent and 7½ per cent on machinery classed as "made in Canada" and machinery "not made in Canada" has been replaced by a uniform rate of 15 per cent, but with provision for full remission of duty where it has been determined by the Machinery and Equipment Advisory Board that the imported machinery is not available from Canadian production.

The Association supports, in principle, the new arrangement approved in the Kennedy Round agreement covering imported machinery. We believe that in the long run it will assist in the development of the machinery industry in Canada. It should also bring important cost benefits to Canadian manufacturing users by enabling them to import, duty free, capital equipment which is not available from a Canadian production source.

Unfortunately, however, the newly established tariff item 42700-1 covering imported machinery appears to have been made unnecessarily complicated by including therein accessories, attachments, control equipment, and tools for use with machinery. This is bound to cause serious difficulties in tariff administration and will delay the granting of duty remission in many instances.

Also included in the new tariff item 42700-1 are a number of electrical appliances, e.g., humidifiers, air-conditioners, etc. In the opinion of the Association, these appliances should not be classified as "machines", and should be separately provided for in the Customs Tariff. This points up the fact that the present Canadian Customs Tariff is in many respects an outmoded instrument which badly needs revision.

We are pleased to note that the Tariff Board has recommended that imported chemicals be classified in accordance with the Brussels Nomenclature for the Classification of Goods in Customs Tariffs. This Nomenclature is now in use in over 75 countries and covers over 73 per cent of the world trade. The Association is strongly of the opinion that Canada should adopt this internationally accepted system of tariff classification, not just for chemicals, but for all imported goods.

Notwithstanding the above, the Association believes that Canada fared very well in the tariff reduction phase of the Kennedy Round agreement. The reaction of individual manufacturers to the reductions varies quite considerably as might be expected depending on the balance of advantages between their particular purchases and sales. However, it can be said that, in the majority of instances, the reductions were largely anticipated. The fact that most of these reductions will be phased over the next four years should enable Canadian manufacturers to adjust to the stiffer foreign competition which will follow in our domestic market.

Tariffs and Canadian Exports

It would appear that some \$3 billion worth of Canadian exports could benefit from the Geneva settlement. In 1966, Canadian exports accounted for 22 per cent of Canada's gross domestic product. These two figures give some indication of the great importance of the Kennedy Round concessions.

Canada's bargaining at Geneva was primarily with the United States. Duties into the United States were eliminated on approx-

imately half-a-billion dollars worth of Canadian exports, and, on a further \$1 billion of exports, United States duty rates were reduced by 50 per cent. Duty reductions on Canadian exports to Europe, Japan and other countries were of much less immediate importance, but could be significant in the long run.

These tariff changes, providing improved access to foreign markets, mean new and enlarged export opportunities, particularly in the United States, for Canadian manufacturers who are prepared to venture beyond the home market. The real extent of the opportunities will depend in large measure, however, on our ability to contain costs and achieve further economies of scale resulting from longer production runs.

Non-Tariff Barriers to Trade

While the reduction of foreign tariffs has important implications for our export trade, tariffs are by no means the whole story. In many parts of the world, and in many commodities, trade barriers of other kinds have made export sales difficult if not impossible.

One of the biggest disappointments of the Kennedy Round was the inability of the various participating countries to reach agreement on the need to remove non-tariff barriers which, as of today, are generally more restrictive of trade than tariffs.

Among barriers of a general nature which are adversely affecting Canada's export trade are the following: consular procedures and documentation, certification of export documents, notarizations, prior import deposits, import licences and exchange permits, labelling regulations, special import assessments, including surcharges and surtaxes, and political embargoes.

Non-tariff barriers in the United States include the "Buy American Act" and similar legislation in various states, special invoicing requirements, valuation for duty, delayed liquidation of customs entries, court delays, marking requirements, health and sanitary regulations and import quotas. The United States Congress is undoubtedly deeply concerned about the difficulties which a number of United States industries are now facing from competitive imports. Whether or not this will result in the United States placing new import quotas on goods of special interest to Canada is difficult to say, but that prospect is always present and must be taken into consideration in the determination of Canada's trade policies.

Non-tariff barriers will become relatively more important as the general level of tariffs is reduced. It is to be hoped that GATT and possibly other international organizations will now turn their attention to these other barriers to expanded trade, including trade in agriculture where progress in freeing the channels of international trade still lags far behind the industrial sector to the disadvantage of efficient food-producing countries such as Canada. There is also need to improve the trading position of underdeveloped countries and thus help to reduce their dependence on aid.

International Code on Anti-Dumping Policies.

As previously mentioned, one aspect of so-called non-tariff barriers with which the Kennedy Round did deal was the harmonization of anti-dumping legislation. Its action on this matter has little relevance to Canada's export potential, but is of great significance to the domestic market. The reduction in levels of Canadian tariff has not disturbed manufacturers nearly as much as the proposed revision of our anti-dumping laws which we have always viewed as an effective and essential safeguard against the unfair competition of dumped surplus goods from abroad.

Briefly, the new International Code on Anti-Dumping Policies, to which Canada has subscribed, deals with the determination of the facts as to whether or not dumping has taken place and whether or not injury or a threat of injury has been caused to a domestic industry.

In effect, the new Code, when it is transformed into Canadian legislation, will mean more leniency in Canadian anti-dumping procedures than prevails at present.

Under our current legislation, foreign exporters are discouraged from shipping goods to Canada at dump prices. They know that dumping duty will apply if they sell their goods to Canadian importers at prices below those prevailing in their home markets under our so-called automatic provisions. We hope that a similar deterrent will be incorporated in our new legislation, because the Canadian market is exceptionally vulnerable to dumping. Many Canadian industries could suffer irreparable harm if dumping practices are not effectively penalized. It should be emphasized, however, that Canadian industrialists have never taken the view that anti-dumping procedures should be used in any arbitrary way to create a barrier to competitive imports at fair prices.

In the Associations' view, there are several major principles which should be followed in any legislation designed to implement the new Anti-Dumping Code:

- (1) The present value for duty provisions of the Customs Act should remain essentially unchanged.
- (2) The same basis of valuation should also apply for purposes of assessing dumping duty.
- (3) Export prices should not be accepted as representing a proper basis of valuation for either regular or dumping duty purposes.
- (4) "Injury" should be determined on as simple a basis as possible.
- (5) "A domestic industry" should be interpreted on a very narrow basis.

In a recent submission to the special government committee on anti-dumping appointed by the Minister of Finance, the Association stressed that inadequate protection against injurious dumping will deter investment and retard manufacturing in Canada.

Adjustment Assistance

In anticipation of the dramatic and pervasive changes in world trade challenges and opportunities which might result from the conclusion of the Kennedy Round, the Association more than a year ago began a study of the various methods used by other industrial countries to help their manufacturers adjust to sudden changes in trading environment. After a great deal of examination and discussion, we came to the conclusion that adjustment assistance is acceptable in our competitive enterprise system. It is our view that the underlying philosophy of the assistance program should be to help manufacturers take advantage of new opportunities in foreign markets, as well as to adjust to changing domestic conditions brought about by changes in government trade policies.

The Association's views on adjustment assistance were presented to the government last September. The announcement by the Prime Minister on December 27 that legislation dealing with the subject of adjustment assistance would be presented to Parliament for approval shortly was, therefore, welcomed by the Association, especially since it appears to indicate substantial agreement with the recommendations put forward in our brief.

Productivity and Production Costs

The ultimate outcome of the new international arrangements, of course, depends on the ability of the Canadian economy to adjust to changing conditions. Because of our heavy dependence on export sales and because of the further opening of the Canadian market to import competition, it is of the greatest importance that Canadian industry be able to meet both the price charged and the quality offered by foreign competitors. Quite clearly, this means that improvements in the productivity of Canadian industry and in the behaviour of production costs are matters deserving of national priority.

So far as productivity is concerned, the performance has been markedly unsatisfactory, a fact that has been noted by the Economic Council of Canada whose studies have singled out this area as the crucial determinant of Canada's future growth. The rate of improvement in output per worker has been disappointing, yet the upward push on costs has been continuing unabated.

The Canadian productivity performance is especially poor in comparison with that of other major industrialized countries. Of the seven large member nations of the Organization for Economic Co-operation and Development, Canada's growth of output per worker ranked seventh in the 1960-65 period. Still worse, according to OECD projections, Canadian productivity growth is likely to remain behind that of our most important competitors, Japan, Italy, France, Britain, Germany and the United States, during the 1965-70 period. In terms of absolute levels, the productivity gap in Canadian manufacturing vis-à-vis the United States appears to be persistently in the neighbourhood of 30 to 33 per cent.

In order for a manufacturer to compete successfully in world markets he must, of course, be in a position to offer his product for sale at a price that is competitive with those of manufacturers of products of similar quality. Canadian costs and price indices have been rising substantially at a faster rate than those of our principal competitors, and it follows that the Canadian manufacturer will find it increasingly difficult to market his goods abroad.

We must note, for example, that in 1966 unit costs in manufacturing increased by 3.6 per cent in Canada and by only 0.6 per cent in the United States.

Rarely, if ever, can the increased cost of doing business be attributed to a single factor, but we cannot hide from or ignore the fact that Canadian wages and salaries have been showing far more dramatic rates of increase than those of employees in manufacturing enterprises in the United States.

Our smaller domestic market, which occasions a shorter production run, means that in far too many instances we are faced with higher costs per unit of output even if wages and salaries are lower than those prevailing in the United States, let alone under conditions of "wage parity".

To some extent the manufacturer can and indeed must absorb rising costs. This is reflected in the shrinking profit margin of Canadian manufacturers as evidenced in the annual survey of its member companies by The Canadian Manufacturers' Association. This study shows that manufacturers' profits, including dividends and retained earnings, amounted to 5.4 cents on each dollar of sales in 1964, but fell to 4.7 cents by 1966. The figure of 4.7 cents of profit on the sales dollar illustrates dramatically the narrowness of the margin in Canadian manufacturing as a whole.

It should not be forgotten that the various forms of taxation to which Canadian industry is subject from significant elements of our costs of production. The only means of lowering the costs of increasing tax burdens, as with other uncontrollable costs, is to increase prices but, under internationally competitive conditions, there are severe limits to price flexibility.

Quality of Canadian Products

Turning now to the second question, the quality of Canadian made goods, this should be interpreted in a broad sense to include research, innovation and the development of new products. There has been a great deal of improvement and increase over the past few years in private industrial research being done in Canada. For example, a recently conducted survey among members of the Association revealed that almost half of some 900 companies participating in the survey maintain their own research departments.

It is generally agreed, however, that a company needs a research and development outlay of at least \$200,000 per annum and a minimum sales volume of roughly \$5 million before it is justified in establishing its own research and development laboratory. This effectively precludes a very high percentage of all manufacturing companies from establishing their own research facilities.

It is essential, of course, that Canadian manufacturers increase their investment in research and development. The Association supports very strongly the various government programs designed to encourage such investment and to assist in overcoming the financial, as well as technological, obstacles. It also supports the efforts of the various provincial research foundations which provide first-rate informational and contract research facilities.

It is true that a large proportion of technological know-how and innovation in Canada is imported. For example, in 1965-66 some 30,000 patent applications were filed in Canada and of these, only about 1,900 were by Canadian resident inventors. The reliance on foreign technology and know-how could be beneficial as it augments our own resources, but there is a great deal more to be done on this score and industry is facing up to the challenge as witnessed by the recent opening up of several giant new research establishments in Canada.

Conclusion

The many-faceted services and activities of the Canadian Manufacturers' Association are designed to help manufacturers, in every line of business and in every part of Canada, in their efforts to increase productivity, cut costs, and offer customers at home and abroad the best possible attributes of price, quality and delivery. These endeavours will be continued and intensified. The closest co-operation with the Canadian government, not only in preparation for any future trade negotiations which is important, but in the day-to-day planning and implementation of programs designed to increase the competitive strength of Canadian industry, will also continue to be a guiding principle.

In conclusion, the Association feels that the Kennedy Round agreement presents Canadian industries with some new and some enlarged markets abroad. It also opens the door more widely to competitive imports and in some cases offers reduced costs for production machinery and components. All of these effects are complex and the eventual movements of goods to which they will give rise are difficult to quantify. If we are to derive the maximum benefit from the agreement, our primary aim must be to ensure a domestic climate that will keep our competitive ability at a high peak. This requires the utmost in co-operation from management, labour and government.

To sum up, and by way of recapitulating some salient points which emerge from this submission:

- (1) Approximately \$2½ billion worth of imports will enter Canada annually at reduced duty rates or free of duty altogether as a result of the Kennedy Round agreement. Some \$3 billion worth of Canadian exports could benefit from the Geneva settlement.
- (2) Overall, Canadian tariffs will be cut by an average of nearly 25 per cent between now and 1972. Unlike the United States, however, Canada has chosen to accelerate the speed of its reductions, making the full reduction immediately operative in some cases and 50 per cent operative in some others. This somewhat precipitate haste could worsen our trade performance in 1968 to the detriment of our international balance of payments position.
- (3) While supporting in principle the new arrangement covering imported machinery, the new tariff item 42700-1 does seem to be unnecessarily complicated. This underscores the fact that the present Canadian Customs Tariff is in many respects out of date and badly in need of revision.
- (4) The Brussels Nomenclature for the Classification of Goods in Customs Tariffs should be adopted by Canada as the ruling system of tariff classification for all imported goods.
- (5) Although the tariff reductions agreed to under the Kennedy Round are a significant step in the direction of further expansion of world trade, the many non-tariff barriers which remain are likely to be proportionately more of an impediment in the future than in the past.
- (6) Canada's bargaining during the Kennedy Round was primarily with the United States which eliminated duties altogether on roughly half-a-billion dollars worth of Canadian exports and reduced by 50 per cent the duty rates on a further billion dollars worth. Congressional concern about the intensive competition which some industries are facing from imports does, however, raise the possibility that the United States may impose new import quotas on some goods of special interest to Canada, a consideration which must bear on the determination of Canadian trade policies.
- (7) The new international code on anti-dumping policies to which Canada has subscribed under the Kennedy Round will mean significantly more leniency in our anti-dumping procedures than has been the case and is accordingly occasioning manufacturers some anxiety. It is of vital importance that the new legislation should, like the old, deter foreign exporters from selling their goods to Canadian importers at prices below those prevailing in their own home market. The stipulations outlined on page 10 (see page 678) of this submission represent, in our view, minimum requirements to ensure that Canadian industries are not exposed to injurious dumping which could do them irreparable harm.
- (8) The lagging rate of productivity improvement in Canada and the upward push on manufacturing costs present management, labour and government with a formidable challenge which must be met if Canadian exporters are to remain internationally competitive. Canadian price indices are rising substantially at a faster rate than are those of our principal competitors. The profit margins of Canadian manufacturers, however, are shrinking, average profit on the sales dollar having fallen from 5.4 cents in 1964 to 4.7 cents in 1966.
- (9) Increased emphasis on research and development within Canada's manufacturing industry should be encouraged and facilitated by every possible means.
- (10) A domestic climate that will strengthen Canadian industry's competitive ability is the first necessity if manufacturers are to derive maximum advantage from the opportunities offered by the Kennedy Round both at home and abroad. The Association, for its part, will continue and intensify its services and activities the better to help manufacturers improve productivity, control costs and generally enhance product quality. To this end, the closest day-to-day co-operation with the government will remain a guiding principle.

The Association would be pleased to supplement these views in any way that the Committee might desire.

Yours very truly,

J. C. Whitelaw,
Executive Vice-President and
General Manager.

APPENDIX "W"

ELECTROHOME LIMITED

January 10, 1968

Committee on Finance, Trade
and Economic Affairs
Government of Canada
OTTAWA, Canada

Gentlemen:

The following is presented in response to the invitation for organizations or individuals to submit briefs with respect to the impact the Kennedy Round Tariff Agreements may have on the Canadian economy.

We would first like to summarize our findings and recommendations as follows:

- (1) We believe the long term results of the GATT negotiations will be beneficial to the Canadian economy;
- (2) The main concern of this brief is with regard to a particular class of products, namely, home comfort appliances which we believe are incorrectly classified;
- (3) It has been said that under the terms of GATT negotiations, changes in classification are not permitted because of the manner in which the negotiations were carried out. We find it hard to believe, however, that this stand would prevent our federal administrators from taking action to correct errors, etc. which would normally be taken if the Kennedy Round GATT negotiations had not taken place;
- (4) Home comfort appliances are now classified as machinery, tariff item 42700-1, a classification which places them with products very dissimilar in nature from a manufacturing, marketing and end use point of view;
- (5) The import duty of this tariff item was reduced in one step effective January 2, 1968 whereas duties on appliances generally will reduce gradually in five annual steps. Home comfort appliances are classified in the U.S.A. with consumer goods on which the tariff will be reduced in five annual steps;
- (6) We recommend that home comfort appliances be reclassified as are stoves and toasters (tariff item 44300-1) or food mix-

ers (tariff item 44524-1). We suggest a new classification for home appliances which contain a motor to be described as "Electro-Mechanical Domestic Appliances with self contained electric motors".

We develop in more detail our thinking with regard to the above.

As noted above, our Company believes that the changes resulting from the Kennedy Round Tariff Negotiations will have, on the long term, a beneficial effect on the Canadian economy. Moreover, the method of introducing the changes have been handled in a manner which will minimize the negative impact on the economy while it is adjusting to the new set of conditions. We believe, however, that we in Canada cannot afford any detrimental effect on any segment of the economy, no matter how small that segment may be, and corrective action should be taken where this is evident.

History of the Company

Electrohome is a public company whose shares are traded on the Toronto Stock Exchange and is engaged in secondary manufacturing. The shares are 99 per cent held by Canadians. The major products are radio and television but, in addition, the company manufactures furniture, sub-fractional horsepower motors, electronic organs and small appliances. The company employs what is believed to be the largest group in the research and development of durable consumer products in Canada and total research and development and engineering last year exceeded \$1 million. The company traditionally has been a strong supporter of Canadian enterprise and supplies a significant share of the market in the areas in which it is engaged. The company employs nearly 2,000 people and has sales volume in excess of \$30 million per annum.

While Electrohome is known primarily for its activity in the electronic business—radio and television—the company has a substantial stake in the small appliance field and recently set up a division in the company employing approximately 150 people, occupying approxi-

mately 180,000 square feet of manufacturing and warehousing space, and with total sales in excess of \$4 million. The company pioneered the development of the portable humidifier having produced these since the early 1930's and is the largest producer of these products in Canada. Other products in the small appliance category include dehumidifiers, fans and air conditioners. All of these products incorporate an electric motor many of which are produced in our motor plant which also produces sub-fractional horsepower motors for other industrial applications and for the automobile industry. The economic well being of our appliance operation, therefore, is most important because it is so closely tied to other important areas in the company. In an appendix to this brief, we report our position product by product together with our assessment of the Canadian and export market.

Machinery Classification—Tariff item 42700-1

This tariff item is a classification covering machinery. By far the greater dollar value of the equipment imported under this classification would be in the heavy goods area and used for production purposes. Some years ago, small electrical appliances were grouped with the machinery category although from a manufacturing, marketing and end use point of view these products are very dissimilar.

Industrial equipment is generally engineered, manufactured and sold on a job shop basis with a comparatively small number of units involved. Home comfort appliances, on the other hand, are manufactured on a mass production basis and marketed accordingly as a consumer item.

This classification replaces a number of classifications in the machinery category in effect prior to January 2, 1968 and which were primarily set up to separate machinery "Made in Canada" from machinery "Not Made In Canada" bearing duty rates of 22½ per cent and 7½ per cent respectively. These sections were very difficult to administer and the new classification—number 42700-1—with one duty rate was established to eliminate these administrative problems. In so doing, the peculiar status of home comfort appliances seems to have been lost sight of.

Objective of Kennedy Round GATT Negotiations

The general approach that was taken in the Kennedy Round Negotiations was to reduce

tariffs on an orderly basis and in such a way as to minimize the negative impact on the various segments of the economy, and to permit a rationalization of production and market capabilities over a larger trading area.

When we examine the manner in which home comfort appliances will be affected, however, we find because of the inconsistency by which these products are classified in the Canadian tariff structure, that the treatment accorded these products in Canada places them at a disadvantage when compared to the treatment given them in the U.S.A. As a piece of machinery, the reduction in duty on imports of home comfort appliances into Canada took effect on January 2, 1968, whereas similar products exported to the U.S.A. and which are given a separate classification will enjoy a tariff reduction spread over five annual steps.

Moreover, home comfort appliances appear to be the only consumer products being given this peculiar treatment. On stoves and toasters (tariff item 44300-1), food mixers (tariff item 44524-1), furniture (tariff item 51901-1), radio and television (tariff item 44533-1), the duty reductions for imports into Canada are in five annual steps. Even electric motors (tariff item 44516-1) are treated in this manner but a product such as a fan which is chiefly an electric motor is classified as a piece of machinery which faces the one step reduction effective January 2, 1968.

Moreover, under the new rules with respect to administration of tariff item 42700-1, there is a provision for refund of duty paid on products imported under this tariff item when not available in Canada. There is a risk that the production of some products now made in Canada may be discontinued in favour of importing because of these new conditions.

Recommendations

We believe it is important that the home comfort appliances be treated as appliances and not as machinery. The principle of gradually scaling down the duty applicable on imports should apply on these products as they do on most other consumer goods. This will permit an orderly adjustment to the new duty rates, and give the Canadian companies an opportunity to extend their market areas into the U.S.A.

While we understand that the Kennedy Round Negotiations were carried on using import and export statistics by tariff classification as a basis for negotiation and, there-

fore, the arrangements agreed to should not be nullified by changes in the product mix of classifications, we would assume that some provision has been made to permit corrections of errors which became apparent from time to time. The GATT Agreement should not interfere with normal administrative action of which the maintenance of proper tariff classifications would be a part. How it happens that home comfort appliances are classified as machinery, we are not able to determine. We do maintain, however, that

this is an incorrect classification for these products and our recommendation is that these products be given a separate classification which could be described as "Electro-Mechanical Domestic Appliances with self contained electric motors". Particular appliances could then be listed or segregated thereunder as desirable or practical for Customs administration.

Yours very truly,

D. S. Sykes
Executive Vice-President

APPENDIX TO THE BRIEF OF ELECTROHOME LTD.

Summary of Marketing Conditions—Home Comfort Appliances

The following summary is a digest of the market position that home comfort appliances occupy in the North American market and has been prepared from the point of view of a Canadian company which enjoys an important segment of the total volume of sales of the products in this general category in Canada.

While it might be assumed that home comfort products have acceptance in the marketplace over large geographical areas in North America, we have found from experience that these products sell on a much more regional basis than might be suspected. For example, humidifiers sell more readily in very cold parts of Canada such as the Montreal area and the mid-West; dehumidifiers in Southern Ontario and the Northeastern part of the United States; and air conditioners sell more readily in the Southern climates and areas subject to long periods of hot weather. Fans have a tendency to sell more readily in areas where air conditioners are not required, in the more northerly part of the hemisphere.

To outline our position product by product, we would like to report the following:

- (1) Humidifiers—We probably have done more to develop the portable humidifier than any other company on the North American continent. It is a device which is ideally suited to our climate. We have been producing these products since the early 1930's and we are the largest producer of these products in Canada. This product is now being introduced in the United States market on a small scale and because of our background we believe we have an excellent opportunity to produce these items for the U.S. market. While we have no estimate of the number of humidifiers built in the United States, we believe the number to be comparatively small at the present time but this market is growing.
- (2) Dehumidifiers—This product has wide acceptance over a comparatively small geographical area in the United States and Canada. It sells well in areas of high

humidity and reasonably high temperatures such as Southwestern Ontario and in the Northeastern part of the United States. It does not sell to the same extent in the mid-Western states because humidity is not high during summer months and in the Southern states air conditioners take the place of dehumidifiers. We estimate the total volume in the United States at about 160,000 units per annum. Last year, Canadian volume was estimated at 28,000 and Electrohome manufactured and sold 9,500 units. We believe we are the largest dehumidifier manufacturer in Canada.

- (3) Air Conditioners—We do not manufacture our own air conditioners because of the volume involved. We obtain our requirements on a contract basis from the Keeprite Manufacturing Company in Brantford which manufactures other lines as well as our own. We believe this is in line with a rationalization that has to take place in this product because of the nature of the market and the extent to which the product has already been developed in the United States. We believe we have about 10 per cent of the Canadian market.
- (4) Fans—While this item was at one time a very significant item with Electrohome, it is gradually being replaced in the home comfort field by air conditioners and dehumidifiers. It still fills a need, however, particularly in the Canadian climate where we have hot weather of short duration and more costly equipment is not justified, such as air conditioners or dehumidifiers. Electrohome has a reasonable share of the Canadian production but imports in this category from the United States and other countries are heavy.

To sum up, therefore, we believe that Canadian companies in general and Electrohome in particular are very well equipped and suited to manufacture these products because of know-how, climate conditions, etc. It is, therefore, important that the tariff arrangements be compatible with the situation.

APPENDIX X

DEPARTMENT OF TRADE AND COMMERCE

Ottawa 4, February 6, 1968.

Miss D. F. Ballantine,
Clerk of the Standing
Committee on Finance, Trade and
Economic Affairs,
House of Commons,
Ottawa, Ontario.

Dear Miss Ballantine:

At the meeting of the Committee on January 23rd, there was some discussion arising from a question by Mr. Clermont, about United States rates of duty applicable to hardwood flooring for railway cars.

Since this meeting, we have been examining United States tariff rulings to determine precisely the classification under which this material is dutiable on entry into the United States, and have been in touch with the Canadian exporter concerned.

From this review it would appear that a recent United States Customs Court decision is relevant. In this decision the Court ruled

that "a product known as "Doweloc" consisting of tongue and grooved maple strips 10 feet or more in length, laminated together to form a piece one foot in width, in which holes are drilled laterally through the joined pieces with steel spiral dowels being rammed into the holes" should be dutiable under United States tariff item 202.58 as hardwood flooring planks at a rate of 3 per cent advalorem. This rate is due to be eliminated as a Kennedy Round concession. This is a reversal of previous United States Customs practice under which this product was dutiable under item 202.60 at a current rate of 15 per cent. We understand that the United States Bureau of Customs will not appeal this decision by the Court. From our discussions with the Canadian exporter, it would appear that the material to which Mr. Clermont referred is included in the description noted above.

Yours sincerely,

T. M. Burns,
Director, Section II,
Office of Trade Relations.

APPENDIX Y

Department of Industry,
Industrial Policy Adviser,
Place de Ville,
21st Floor, 112 Kent Street,
Ottawa 4, Ontario.

January 24, 1968.

John Gilbert, M. P.,
House of Commons,
Ottawa.

Dear Mr. Gilbert,

During the hearings of the Standing Committee on Finance, Trade and Economic Affairs, on January 18th, at which I appeared as a witness, you asked whether a Canadian subsidiary of a U.S. company would be eligible for assistance under the Adjustment

Assistance Provisions of the U.S. Trade Expansion Act of 1962 (Page 346, Minutes of Proceedings and Evidence, January 18th).

In my reply, I indicated that I did not think a Canadian subsidiary would be eligible for assistance under the U.S. Program. I can now confirm that answer. Under the U.S. program assistance would only be made available within the United States and the Commonwealth of Puerto Rico.

Yours sincerely,
H. Hume Wright.

c.c. Mr. Herb Gray, M.P.,
Chairman, Standing Committee
on Finance Trade and Economic
Affairs.

APPENDIX Z

DEPUTY MINISTER OF NATIONAL
REVENUE
CUSTOMS AND EXCISE
CONNAUGHT BUILDING, OTTAWA 2,
ONTARIO

February 5, 1968.

Mr. H. E. Gray, M. P.,
Chairman,
Standing Committee on Finance,
Trade and Economic Affairs,
House of Commons,
Ottawa, Ontario.

Dear Mr. Gray:

The following is an answer to the question asked by the Honourable Marcel Lambert, M.P., on February 1, 1968, concerning tariff item 42700-1 and the matter of the incidence of the sales and excise taxes.

There is no provision for remission of the sales and excise taxes. Therefore, remission of duty under the relevant Order in Council will not take into account an aliquot portion of tax or taxes paid.

When goods are imported under taxable conditions, the value for tax is the "duty paid value", as defined in Sections 22(1) (a) and 29(1)(a) of the Excise Tax Act. Regardless of

whether remission is granted prior to importation of the goods or after, the duty paid value, which will include the Customs duty normally payable, the duty paid value, which will include the Customs duty normally payable, will be shown on each Customs entry covering goods admissible under tariff item 42700-1. The amount of duty remitted will be shown separately and deducted from the duty normally payable. It is not deductible from the duty paid value on which the tax or taxes apply.

When goods are imported by a licensed wholesaler or a licensed manufacturer, sales tax exempt, and subsequently resold by him under taxable conditions, the tax is payable on resale of the goods at the applicable rate, based on the duty paid value as shown on the Customs entry covering the importation of the goods.

I am enclosing an English copy of Memorandum D46-20, dated 23rd January 1968, which deals with the duty and remission. French copies will be available shortly.

Also enclosed are English and French copies of Bulletin 49, dated 5th January 1968, dealing with the application of the sales and excise taxes.

Yours truly,
Raymond C. Labarge.

DEPARTMENT OF NATIONAL REVENUE

CUSTOMS AND EXCISE

MEMORANDUM D46-20

Ottawa, 23rd January 1968

MACHINERY PROGRAM – TARIFF ITEM 42700-1

1. Attention is drawn to Memorandum D47-471, 6th November 1967, and tariff item 42700-1, reading:

	British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff
"Machines, n.o.p., and accessories, attachments, control equipment and tools for use therewith; parts of the foregoing	2½ p.c.	15 p.c.	35 p.c.

Except that in the case of the importation into Canada of any goods enumerated in this item, the Governor in Council on the recommendation of the Minister of Industry may, whenever he considers that it is in the public interest and that the goods are not available from production in Canada, remit the duty specified in this item applicable to the goods, and subsections (2), (3), (4), (5) and (8) of section 22 of the Financial Administration Act apply in the case of a remission granted under this provision."

2. This tariff item applies to goods imported or taken out of warehouse for consumption on or after 1st January 1968.

Administration

3. Administration of this item, with respect to tariff classification, is the responsibility of the Department of National Revenue.

4. The provision for remission in the item will be administered by the Department of Industry. To implement the program, a Machinery and Equipment Advisory Board has been established under the Department of Industry Act. The Board will consider applications for remission of duty applicable under tariff item 42700-1. Application forms, together with pamphlets outlining the conditions under which applications will be considered, as published by the Department of Industry, are available from Collectors of Customs and Excise.

5. When an application for remission of duty is approved, the original application will be returned to the applicant with the appropriate Order in Council number shown thereon. This Order in Council number will require to be quoted on all relevant Customs entries or on refund claims, as applicable. It is understood that remission of duty will not be recommended on the first \$500.00 of value included in any one application.

6. All entries pertaining to remissions under the provisions of tariff item 42700-1 are to be prepared in accordance with the principles illustrated in the Appendices to this memorandum. In each example, it is assumed that the approved application covers the importation of five machines, each valued at \$300.00, for a total value of \$1,500.00.

Appendix A covers the situation where all the machines are included in one importation, duty being remitted on \$1,000.00 of the total value.

Appendix B relates to the situation where only a portion of the goods covered by the authorization is imported on the first entry but the total value of the entry is over \$500.00. The second entry in Appendix B shows the manner in which subsequent entries under the same Order in Council should be prepared.

Appendix C has regard for the case where the importer wishes to pay full duty on the first \$500.00 of value at the time of the first entry under the relevant Order in Council, but the actual value of the goods is less than \$500.00. It will be noted that the duty in excess of the amount actually applicable to the value entered is referred to as a "duty deposit". Entries Nos. 2, 3 and 4 in this Appendix indicate the manner in which entries for the remaining machines covered by the application are to be prepared.

Appendix D shows the manner of preparing entries in the case of an importer who wishes to pay only the amount of duty applicable on the goods covered by the particular entry. In this example, there is no remission on the first entry, a partial remission only on the second entry and a full remission on the third entry.

7. It is essential that, whatever method of implementing remission is preferred, every entry shall make reference to the appropriate Order in Council, whether or not full duty, or any duty, is paid at time of entry.

8. The original, or photo copy, of the approved application requires to be submitted with each remission entry.

9. The provisions of section 43 of the Customs Act will apply (see Memorandum D45).

10. Guidelines for Tariff Classification

The following comments are intended only to illustrate departmental administrative policy, and to assist in the classification of goods under tariff item 42700-1. They are not to be regarded as legal interpretations binding on the Department nor on importers:

(a) "machines". In deciding whether or not an article is a machine, consideration should be given to the Tariff Board's definition in Appeals 560 and 607, as follows:

"a machine is comprised of a more or less complex combination of moving and stationary parts and does work through the production, modification or transmission of force and motion".

A machine usually has one base, rather than a series of bases. The Department holds that a transfer line, such as is found in automotive plants, for example, is not one machine. It is deemed to consist of a series of individual components, some of which are machines, but each component is classifiable in its own right, even though they may be linked together mechanically, hydraulically or electrically. Articles such as aerial ropeways, gondola lifts or ski lifts are considered not to be machines but are in the nature of systems comprising machines and other articles which may or may not be mechanical. Generally speaking, passive articles are considered not to be machines, even though they may be somewhat complex and incorporate parts which remain stationary, and other parts which may be moved. An adjustable form or mould is an example.

(b) "n.o.p.". By virtue of the "n.o.p.", only machines which are not otherwise provided for by name, or by use, are classifiable under this item. Machines which are provided for by name in tariff items other than 42700-1 continue to be classified under those items. Further, where machines for a particular end-use, such as mining, quarrying, metallurgy, logging, sawmill, oil well, etc., are provided for in a tariff item, they will continue to be classified under the end-use provision, even though they would otherwise fall under tariff item 42700-1.

(c) "accessories, attachments". Generally speaking, these terms are synonymous. While not essential to the operation of the machine, accessories are usually designed to improve the operation of the machine, or for the comfort of its operator. Machine attachments are generally designed for use on particular machines, and may enable the machines to perform additional specialized functions. To be classified under tariff item 42700-1, accessories or attachments **must be mounted on the machines when in use.**

(d) "control equipment".

(i) This term is interpreted as covering all articles, whether mechanical, electrical, or non-mechanical, which serve to start, control the operations of, or stop, a machine, i.e., the equipment which gives commands to the machine. It does not include the driving mechanism of a machine, nor the source of power, nor, in the case of numerical control of a machine, the tape preparation equipment, card punching equipment and the like.

(ii) Control equipment **tells** the machine what to do. It gives the commands.

(iii) Control equipment must be for use with a "machine, n.o.p.", as provided for in tariff item 42700-1.

(iv) Location has no bearing. Control equipment may be in a machine, on a machine, beside a machine, in a different room, on a different floor, or in a different building.

(v) Control equipment may be of different kinds. For example, it may be electrical, electronic, pneumatic, mechanical, or hand-operated.

(vi) Examples of articles which may fall into the category of control equipment, depending on application, include: control panels (electric or hydraulic), speed controls, governors, electric switches (hand-activated or automatic), voltage regulators, circuit breakers, overload devices, valves, protective or safety devices.

(vii) Control equipment does not do the work – the machine does the work. An electric motor which drives a machine is not control equipment. It merely **obeys** commands, it does not give them.

(e) "**tools**". Tools for use in the "machines, n.o.p." or for use in the attachments or accessories are classified under this provision. Tool holders imported with the tools mounted in them are classified as "tools". Tools may be of any material, e.g., metal, tungsten carbide, ceramic, etc. Hand tools are excluded.

(f) "**for use therewith**". In relation to the accessories, attachments, control equipment and tools, this provision means that they must be for use with a "machine, n.o.p.".

(g) "**parts of the foregoing**". Generally speaking, to be considered a "part", the imported article should be for mounting directly on or for incorporation into the equipment provided for in the tariff item. Assemblies of parts are also "parts". Parts which are provided for by name elsewhere in the Customs Tariff are not to be classified under the provision for "parts" for "machines, n.o.p.". However, parts which are provided for by name elsewhere in the Customs Tariff may be classified under the provision for "parts" for the accessories, attachments, control equipment and tools, if the naming item is qualified by "n.o.p.".

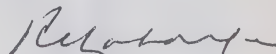
(h) Separately located electric motors or engines are not admissible under tariff item 42700-1.

(i) It will be noted that the following former tariff items have been deleted from the Customs Tariff:

42200-1, 42205-1, 42701-1, 42701-2, 42702-1, 42703-1, 42704-1, 42705-1, 42706-1, 42707-1, 42708-1, 42711-1, 42720-1, 42735-1, 42750-1, 42753-1, 44636-1, 44637-1, 46105-1, (in part).

Generally speaking, articles previously classified under these former tariff items may be expected to fall under tariff item 42700-1. In addition, this item may attract certain electrical components, and goods previously classified according to material or nature, e.g., certain machines other than of iron or steel.

(j) It should be noted that tariff item 42700-1 contains no "made in Canada" qualification.



Raymond C. Labarge,
Deputy Minister of National Revenue,
Customs and Excise.

Memorandum D46-20, 15 Dec 67, is superseded.

CANADA CUSTOMS—ENTRY FOR HOME CONSUMPTION

B-1 10/65		Port _____ 19____ Arriving per _____ Importer _____ Exporter and Country of Export _____ U.S.A. Via (Direct or country through which carried in transit) _____		Manifest Number _____ Entry No. 1		APPENDIX A	
Power of Attorney No. _____ <input type="checkbox"/> Bill of Lading produced C 9 No. _____		Value For Duty in Dollars _____		Rate of Duty or Free _____		Total Customs Duty _____	
Quantity _____		Tariff Item _____		Rate of Duty or Free _____		Total Customs Duty _____	
Machines Remitted by Order in Council P.C. (quote number) _____		42700-1 5		15%		225.00	
1725.00		207.00		207.00		207.00	
150.00		150.00		150.00		150.00	
282.00		282.00		282.00		282.00	
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75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00		282.00		282.00		282.00	
75.00		75.00		75.00		75.00	
207.00		207.00		207.00		207.00	
282.00							

CANADA CUSTOMS — ENTRY FOR HOME CONSUMPTION

Port _____ 19____
Arriving per _____
Importer _____
Exporter and Country of Export _____ Mechanization, Inc., U.S.A.
Via (Direct or country through which carried in transit) _____

Power of Attorney No. _____
Bill of Lading produced ☐
C 9 No. _____

B-1
10465

Entry No. 1

Manifest Number

APPENDIX B

Mark's and Merchants	Number of Packages	DESCRIPTION OF GOODS	Tariff Item	Quantity	Value For Dollars	Duty of Free	Total Customs Duty	Duty Paid Value	Sales Tax	Rate of Excise Tax	Excise Tax
		Machines	42700-1	3	\$900.00	15%	135.00	1035.00	124.20		
		Remitted by Order in Council P.C. (quote number)					60.00				

SP
EC
IM
EN

SUBJECT TO AMENDMENT

DECLARATION, FORM 4

Declaration of the importer or agent of the importer prescribed to be made on entry of goods at a lower rate of duty or free for manufacturing purposes.

1. That I am the _____ of _____ (Town) _____ (Province) _____ hereby certify and declare as follows.

2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ in the owners' factory at _____ and such goods or parts thereof will not be used for any other purpose.

Declared this _____ day of _____ 19____

(Witness) _____ (Signature of importer or agent of importer)

WITNESSED DECLARATION (FORMS 1 AND 2 ABBREVIATED)

1. That I am the _____ of _____ (Town) _____ (Province) _____ hereby certify and declare as follows.

2. That form _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and signed in such form facts set out therein and correct and agree to be bound by the terms, conditions and obligations set out therein.

3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.

Declared this _____ day of _____ 19____

(Witness) _____ (Signature of the owner, consignee or agent)

(1) I/We certify that the goods imported hereby are for resale. Wholesalers S.T.

License No. _____

(2) I/We certify that the goods imported hereby are to be used in the process of manufacture or production of goods for sale. Manufacturers S.T. and/or E.T.

License No. _____

(3) I/We certify that the goods imported hereby are to be used in the process of manufacture or production of goods.

License No. _____

(4) I/We certify that the goods imported hereby are to be used in the process of manufacture or production of goods.

License No. _____

Duty _____ 75.00
Sales Tax _____ 124.20
Excise Tax _____
Total _____ 199.20

Memorandum D46-20

CANADA CUSTOMS—ENTRY FOR HOME CONSUMPTION

B-1 10/65		Port _____ Arriving per _____ 19____		Manifest Number _____ Entry No. _____		APPENDIX B					
Importer _____ Exporter and Country of Export _____ U.S.A.		Bill of Lading produced <input type="checkbox"/> C 9 No. _____									
Via (Direct or country through which carried in transit) _____											
Mark and Numbers	No. of Packages	DESCRIPTION OF GOODS	Tariff Item	Quantity	Value for Customs in Dollars	Rate of Duty or Free	Total Customs Duty	Duty Value	Sales Tax	Rate of Excise Tax	Excise Tax
		Machines	42700-1	2	\$600.00	15%	90.00	690.00	82.80		
		Remitted by Order in Council P.C. (quote number)					90.00				
		Duty on first \$500.00 of value has been paid									
SPECIMEN											
SUBJECT TO AMENDMENT											
DECLARATION, FORM 4 Declaration of the importer or agent of the importer prescribed to be made on entry of goods at a lower rate of duty or free for manufacturing purposes.											
I, _____ of _____ (Province) hereby certify and declare as follows: 1. That I am the _____ of the goods referred to on this entry (Importer or agent of the importer)											
2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ in the owner's factory at _____ (Province) and such goods or parts thereof will not be used for any other purpose.											
Declared this _____ day of _____, 19____ (Witness) _____ Signature of importer or agent of importer											
WITNESSED DECLARATION (FORMS 1 AND 2 ABBREVIATED) I, _____ of _____ (Province) hereby certify and declare as follows: 1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of owner)											
2. That form _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and understand the facts set out therein and agree to be bound by the terms, conditions and designations set out in such form.											
3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.											
Declared this _____ day of _____, 19____ (Witness) _____ Signature of the owner, consignee or agent											
(1) (We certify that the goods imported hereby are for resale. Wholesalers S.T.) Licence No. _____ (2) (We certify that the goods imported hereby are to be used in the manufacture of goods for sale. Manufacturers S.T. and/or E.T.) Licence No. _____ (3) (We certify that the machinery, apparatus or component parts imported hereby are to be used exclusively in the process of manufacture or production of goods.) Licence No. _____ (4) (We certify that the materials imported hereby are to be used exclusively in the process of manufacture or production of goods.) Licence No. _____											
Duty _____ Sales Tax 82.80 Excise Tax _____ Total 82.80											

CANADA CUSTOMS—ENTRY FOR HOME CONSUMPTION

Port 19 Power of Attorney No. 1
Arriving per 19
Importer 19
Exporter and Country of Export U.S.A.
Via (Direct or country through which carried in transit) 19

APPENDIX
C

Entry No. 1

Manifest Number

Mark Numbers	Number Packages	DESCRIPTION OF GOODS	Tariff Item	Quantity	Value for Duty in Dollars	Rate of Duty or Free	Total Customs Duty	Duty Paid Value	Sales Tax	Excise Tax
		Machine	42700-1	1	\$300.00	15%	45.00	345.00	11.40	
		Duty deposit to account for duty on first \$500.00 of value re Order in Council P.C. (quote number)					39.00			

SPECIMEN

DECLARATION, FORM 4 Declaration of the importer or agent of the importer prescribed to be made on entry of goods at a lower rate of duty or free for manufacturing purposes I, <u>19</u> of <u>19</u> (Town) <u>19</u> (Province) hereby certify and declare as follows: 1. That I am the <u>19</u> (Importer or agent of the importer) 2. That the goods referred to on this entry are for use exclusively in the manufacture of <u>19</u> (in the owners' factory at <u>19</u> (Town) and such goods or parts thereof will not be used for any other purpose) Declared this <u>19</u> day of <u>19</u> (Witness) <u>19</u> (Signature of importer or agent of importer)		WITNESSED DECLARATION (FORMS 1 AND 2 ABBREVIATED) I, <u>19</u> of <u>19</u> (Town) <u>19</u> (Province) hereby certify and declare as follows: 1. That I am the <u>19</u> of the goods referred to on this entry (Owner, consignee or agent of same) 2. That form <u>19</u> on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to the facts set out therein and I agree to be bound by the terms, conditions and obligations set out in such form. 3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete Declared this <u>19</u> day of <u>19</u> (Witness) <u>19</u> (Signature of the owner, consignee or agent)		DECLARATION, FORM 4 Declaration of the importer or agent of the goods imported hereby are for use exclusively in the manufacture of <u>19</u> (Town) <u>19</u> (Province) I, <u>19</u> of <u>19</u> (Town) <u>19</u> (Province) hereby certify and declare as follows: 1. That I am the <u>19</u> (Importer or agent of the importer) 2. That the goods referred to on this entry are for use exclusively in the manufacture of <u>19</u> (in the owners' factory at <u>19</u> (Town) and such goods or parts thereof will not be used for any other purpose) Declared this <u>19</u> day of <u>19</u> (Witness) <u>19</u> (Signature of importer or agent of importer)		DECLARATION, FORM 4 Declaration of the importer or agent of the goods imported hereby are for use exclusively in the manufacture of <u>19</u> (Town) <u>19</u> (Province) I, <u>19</u> of <u>19</u> (Town) <u>19</u> (Province) hereby certify and declare as follows: 1. That I am the <u>19</u> (Importer or agent of the importer) 2. That the goods referred to on this entry are for use exclusively in the manufacture of <u>19</u> (in the owners' factory at <u>19</u> (Town) and such goods or parts thereof will not be used for any other purpose) Declared this <u>19</u> day of <u>19</u> (Witness) <u>19</u> (Signature of importer or agent of importer)	
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Memorandum D46-20

Duty 73.00
Sales Tax 11.40
Excise Tax 116.40
Total 116.40

B-1
10/65

CANADA CUSTOMS—ENTRY FOR HOME CONSUMPTION

B-1 1045		Power of Attorney No. 19		Manifest Number		Entry No. 2		APPENDIX C	
Port		Arriving per		Bill of Lading produced <input type="checkbox"/>		C 9 No.			
Importer		Exporter and Country of Export		Via (Direct or country through which carried in transit)					
Machine		42700-1		Quantity 1		Value for Duty in Dollars \$300.00		Rate of Duty or Free 15%	
Remitted by Order in Council P.C. (quote number)		Duty on first \$500.00 of value has been paid		Total Customs Duty 45.00		Duty Paid Value 345.00		Sales Tax 41.40	
								Excise Tax	
								Total 41.40	
								Duty	
								Sales Tax 41.40	
								Excise Tax	
								Total 41.40	

DECLARATION, FORM 4		DECLARATION, FORM 4		DECLARATION, FORM 4		DECLARATION, FORM 4		DECLARATION, FORM 4	
I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:		I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:		I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:		I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:		I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:	
1. That I am the _____ of the goods referred to on this entry (Importer or agent of the importer)		1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of same)		1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of same)		1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of same)		1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of same)	
2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ in the owners' factory at _____ (Town) _____ (Province) and such goods or parts thereof will not be used for any other purpose.		2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out in such form.		2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out in such form.		2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out in such form.		2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out in such form.	
3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.		3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.		3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.		3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.		3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.	
Declared this _____ day of _____ 19____		Declared this _____ day of _____ 19____		Declared this _____ day of _____ 19____		Declared this _____ day of _____ 19____		Declared this _____ day of _____ 19____	
(Witness)		(Witness)		(Witness)		(Witness)		(Witness)	
Signature of importer or agent of importer		Signature of the owner, consignee or agent		Signature of the owner, consignee or agent		Signature of the owner, consignee or agent		Signature of the owner, consignee or agent	

DECLARATION, FORM 4		DECLARATION, FORM 4		DECLARATION, FORM 4		DECLARATION, FORM 4		DECLARATION, FORM 4	
I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:		I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:		I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:		I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:		I, _____ of _____ (Town) _____ (Province) hereby certify and declare as follows:	
1. That I am the _____ of the goods referred to on this entry (Importer or agent of the importer)		1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of same)		1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of same)		1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of same)		1. That I am the _____ of the goods referred to on this entry (Owner, consignee or agent of same)	
2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ in the owners' factory at _____ (Town) _____ (Province) and such goods or parts thereof will not be used for any other purpose.		2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out in such form.		2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out in such form.		2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out in such form.		2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out in such form.	
3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.		3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.		3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.		3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.		3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.	
Declared this _____ day of _____ 19____		Declared this _____ day of _____ 19____		Declared this _____ day of _____ 19____		Declared this _____ day of _____ 19____		Declared this _____ day of _____ 19____	
(Witness)		(Witness)		(Witness)		(Witness)		(Witness)	
Signature of importer or agent of importer		Signature of the owner, consignee or agent		Signature of the owner, consignee or agent		Signature of the owner, consignee or agent		Signature of the owner, consignee or agent	

CANADA CUSTOMS—ENTRY FOR HOME CONSUMPTION

B-1

10/65

Port 19

Arriving per Power of Attorney No.

Importer Bill of Lading produced ☐

Exporter and Country of Export Mechanization, Inc., U.S.A.

Via (Direct or country through which carried in transit) C 9 No.

APPENDIX
C

Entry No. 3

Manifest Number

Markings and Numbers	Number of Packages	DESCRIPTION OF GOODS	Tariff Item	Quantity	Value for Duty in Dollars	Rate of Duty or Free	Total Customs Duty	Duty Paid Value	Sales Tax	Excise Tax
		Machine	42700-1	1	\$300.00	15%	45.00	345.00	41.40	
		Remitted by Order in Council P.C. (quote number)					45.00			
		Duty on first \$500.00 of value has been paid								

SPECIMEN

SUBJECT TO AMENDMENT

DECLARATION, FORM 4

Declaration of the importer or agent of the importer prescribed to be made on entry of goods at a lower rate of duty or free for manufacturing purposes.

I, Power of Attorney No. of 19 (Province) hereby certify and declare as follows:

1. That I am the Importer or agent of the importer of the goods referred to on this entry.

2. That the goods referred to on this entry are for use exclusively in the manufacture of 19 (Province).

and such goods or parts thereof will not be used for any other purpose.

Declared this 19 day of 19.

Signature of importer or agent of importer 19 (Witness)

WITNESSED DECLARATION (FORMS 1 AND 2 ABBREVIATED)

I, Power of Attorney No. of 19 (Province) hereby certify and declare as follows:

1. That I am the Importer or agent of the importer of the goods referred to on this entry.

2. That I am Power of Attorney No. of 19 (Province) on the reverse side hereof applies to the goods referred to on this entry and I have read and agree to be bound by the terms, conditions and obligations set out therein.

3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.

Declared this 19 day of 19.

Signature of the owner, consignee or agent 19 (Witness)

Include

(1) I/we certify that the goods imported hereby are for resale. Wholesalers S.T.

(2) I/we certify that the goods imported hereby are to be used in the manufacture of 19 (Province) for sale. Manufacturers S.T. and/or E.T.

(3) I/we certify that the machinery, apparatus or equipment imported hereby are to be used directly in the process of manufacture or production of goods.

(4) I/we certify that the machinery, apparatus or equipment imported hereby are in the process of manufacture or production of goods.

Duty 41.40

Sales Tax 41.40

Excise Tax 41.40

Total 41.40

Memorandum 1346-20

CANADA CUSTOMS—ENTRY FOR HOME CONSUMPTION

Port. _____ 19. _____ Power of Attorney No. _____
 Arriving per. _____
 Importer. _____
 Exporter and _____
 Country of Export. _____ Mechanisation, Inc., U.S.A. ☐
 Bill of Lading produced _____
 C 9 No. _____
 Via (Direct or country through which carried in transit) _____

Manifest Number

Entry No. 4

APPENDIX
C

[illegible]

DECLARATION FORM 4		WITNESSED DECLARATION (FORMS 1 AND 2 ABBREVIATED)		Includes		Duty	
<p>Declaration of the importer or agent of the importer prescribed to be made on entry of goods at a lower rate of duty or free for manufacturing purposes.</p> <p>I, _____ (Town) _____ (Provincial) _____ (Vitalstad)</p> <p>hereby certify and declare as follows:</p> <p>1. That I am _____ of the goods referred to on this entry.</p> <p>2. That the goods referred to on this entry are for use exclusively in the manufacture of _____ in the owner's factory at _____</p> <p>and such goods or parts thereof will not be used for any other purpose.</p> <p>Declared this _____ day of _____ 19____</p> <p>_____ (Signature of importer or agent of importer)</p>		<p>I, _____ (Town) _____ (Provincial) _____ (Vitalstad)</p> <p>hereby certify and declare as follows:</p> <p>1. That I am _____ of the goods referred to on this entry.</p> <p>2. That the goods referred to on this entry and I have need of them for the manufacture of _____ in the owner's factory at _____</p> <p>and such goods or parts thereof will not be used for any other purpose.</p> <p>3. That to the best of my knowledge and belief the particulars set out in this entry are true, correct and complete.</p> <p>Declared this _____ day of _____ 19____</p> <p>_____ (Signature of the owner, consignee or agent)</p>		<p>(1) (We certify that the goods imported hereby are for resale. Manufacturers S.T.) <input type="checkbox"/></p> <p>(2) (We certify that the goods imported hereby are to be used in the process of manufacturing or production of goods for sale. Manufacturers S.T. and/or E.T.) <input type="checkbox"/></p> <p>(3) (We certify that the machinery, apparatus or components therein imported hereby are to be used in the process of manufacturing or production of goods. <input type="checkbox"/></p> <p>(4) (We certify that the articles imported hereby are to be consumed or expended directly in the process of manufacturing or production of goods. <input type="checkbox"/></p>		<p>Duty _____</p> <p>Sales Tax _____ 82.80</p> <p>Excise Tax _____</p> <p>Total _____ 82.80</p>	

CANADA CUSTOMS-ENTRY FOR HOME CONSUMPTION

Port_____

Arriving per_____19____

Importer_____

Country of Export_____Mechanization, Inc., U.S.A.

Via (Direct or country through which carried in transit)_____

Power of Attorney No. _____

Bill of Lading produced ☐

C 9 No. _____

B-1
10/65

Entry No. 1

Manifest Number

APPENDIX
D

Mark and Number	Number of Packages	DESCRIPTION OF GOODS	Tariff Item	Quantity	Value for Customs Dollars	Rate of Duty or Free	Total Duty Dollars	Duty Value	Sales Tax	Rate of Excise Tax	Excise Tax
		Machine	42700-1	1	\$300.00	15%	45.00	345.00	41.40		
Accounting for duty on a portion of the first \$500.00 of value re: Order in Council P.C. (quote number)											
SPECIMEN											
SUBJECT TO AMENDMENT											
DECLARATION, FORM 4 Declaration of the importer or agent of the importer prescribed to be made on entry of goods at a lower rate of duty or free for manufacturing purposes. 1 That I am the _____ of _____ (Town) _____ (Province) _____ herby certify and declare as follows. (Importer or agent of the importer) 2 That the goods referred to on this entry are for use exclusively in the manufacture of _____ _____ in the owners' factory of _____ (Town) _____ (Province) _____ and such goods or parts thereof will not be used for any other purpose. Declared this _____ day of _____, 19____ (Witness) _____ Signature of importer or agent of importer											
WITNESSED DECLARATION (FORMS 1 AND 2 ABBREVIATED) 1. _____ of _____ (Town) _____ (Province) _____ herby certify and declare as follows. Owner, consignee or agent of same 2 That I am the _____ of the goods referred to on this entry On the reverse side hereof applies to the goods referred to on this entry and I have read and understand the facts set out herein are correct and I agree to be bound by the terms, conditions and obligations set out in such form. 3 That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete Declared this _____ day of _____, 19____ (Witness) _____ Signature of the owner, consignee or agent											
(1) I/we certify that the goods imported hereby are for resale. Wholesalers S.I. Licence No. _____ Duty _____ 45.00											
(2) I/we certify that the goods imported hereby are to be used in the manufacture of taxable goods for sale. Manufacturers S.I. and/or E.I. Licence No. _____ Sales Tax _____ 41.40											
(3) I/we certify that the machinery, apparatus or component parts imported hereby are to be used exclusively in the process of manufacture or production of goods. Licence No. _____ Excise Tax _____											
(4) I/we certify that the materials imported hereby are to be used exclusively in the process of manufacture or production of goods. Licence No. _____ Total _____ 86.40											

CANADA CUSTOMS—ENTRY FOR HOME CONSUMPTION

Power of Attorney No. _____

Entry No. 2

Manifest Number

APPENDIX
D

Port _____ 19____

Arriving per _____

Importer _____

Exporter and _____

Country of Export _____

Via (Direct or country through which carried in transit) _____

Bill of Lading produced ☐

C 9 No. _____

Mark Number	Number Packages	DESCRIPTION OF GOODS	Tariff Item	Quantity	Value For Dollars	Rate of Duty Free	Total Customs Duty	Duty Value	Sales Tax	Rate of Excise Tax	Excise Tax
-------------	-----------------	----------------------	-------------	----------	-------------------	-------------------	--------------------	------------	-----------	--------------------	------------

		Machine	42700-1	1	\$300.00	15%	45.00	345.00	41.40		
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Remitted by Order in Council P.C. (quote number)

Portion of the duty on the first \$500.00
of value has been paid

SPECIMEN

SUBJECT TO AMENDMENT

DECLARATION, FORM 4

Declaration of the importer or agent of the importer prescribed to be made on entry of goods at a lower rate of duty or free for manufacturing purposes.

I, _____ of _____ (Province) _____ (Town) _____ (Postal)

hereby certify and declare as follows:

1. That I am the _____ (Signature or agent of the importer) of the goods referred to on this entry.

2. That the goods referred to on this entry are for use exclusively in the manufacture of _____

and such goods or parts thereof will not be used for any other purpose.

Declared this _____ day of _____, 19____

(Witness)

Signature of importer or agent of importer

WITNESSED DECLARATION (FORMS 1 AND 2 ABBREVIATED)

I, _____ of _____ (Province) _____ (Town) _____ (Postal)

hereby certify and declare as follows:

1. That I am the _____ (Signature or agent of the importer) of the goods referred to on this entry.

2. That I am the _____ (Signature or agent of the importer) of the goods referred to on this entry and I have read and understand the facts set out herein and I agree to be bound by the terms, conditions and obligations set out herein.

3. That to the best of my knowledge and belief the particulars set out on this entry are true, correct and complete.

Declared this _____ day of _____, 19____

(Witness)

Signature of the owner, consignee or agent

(1) (We certify that the goods imported hereby are for resale. Wholesaler's S.T.)

Licence No. _____

(2) (We certify that the goods imported hereby are to be used in the manufacture of goods for sale. Manufacturer's S.T. and/or L.T.)

Licence No. _____

(3) (We certify that the machinery, apparatus or component parts imported hereby are to be used in the process of manufacture or production of goods.)

Licence No. _____

(4) (We certify that the materials imported hereby are to be used in the process of manufacture or production of goods.)

Licence No. _____

Imports

Duty

Sales Tax

Excise Tax

Total

30.00

41.40

71.40

DEPARTMENT OF NATIONAL REVENUE
EXCISE

BULLETIN 49

Ottawa, 5th January 1968

MACHINERY PROGRAM -- TARIFF ITEM 42700-1

APPLICATION OF SALES AND EXCISE TAXES

Attention is drawn to Memorandum D46-20, 15th December 1967, Memorandum D47-471, 6th November 1967, and tariff item 42700-1, which reads as follows:

British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff
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"Machines, n.o.p., and accessories, attachments, control equipment and tools for use therewith; parts of the foregoing	2½ p.c.	15 p.c.	35 p.c.
--	---------	---------	---------

Except that in the case of the importation into Canada of any goods enumerated in this item, the Governor in Council on the recommendation of the Minister of Industry may, whenever he considers that it is in the public interest and that the goods are not available from production in Canada, remit the duty specified in this item applicable to the goods, and subsections (2), (3), (4), (5) and (8) of section 22 of the Financial Administration Act apply in the case of a remission granted under this provision."

Tariff items replaced by 42700-1 are as follows:

42200-1, 42205-1, 42701-1, 42701-2, 42702-1, 42703-1, 42704-1, 42705-1, 42706-1, 42707-1, 42708-1, 42711-1, 42720-1, 42735-1, 42750-1, 42753-1, 44636-1, 44637-1

Note: Tariff item 42700-1 will also attract some control equipment, formerly dutiable under 44524-1, as well as non-mechanical accessories and attachments formerly classified under 44603-1, when these are for use with machines.

The following is an extract from information release issued by the Department of Industry, 14th December 1967:

"The Minister of Industry will consider applications for remission, subject to the following conditions:

- (i) Applications must be made on Department of Industry form D1-2009, "Application for Remission of Duty on Imports under Tariff Item 42700-1", and will be accepted before or not later than 90 days after date of Customs clearance.
- (ii) Applications by other than users of machinery must include assurances which are satisfactory to the Minister that remission of duty, if granted, will be reflected in prices to users.
- (iii) Remission of duty will not be recommended on the first five hundred dollars (\$500) of value for duty on machinery covered by any one application".

While provision is made effective 1st January 1968, for remission of duty specified in the tariff item applicable to the goods under the conditions outlined, there is no provision for remission of the sales and excise taxes. The sales tax, and the excise tax where applicable, are payable on the goods imported under the item computed on the "duty paid value", as defined by Sections 22.(1)(a) and 29.(1)(a) of the *Excise Tax Act*, except when the goods are imported under conditions and certificate warranting exemption.

(Over)

When goods are imported under taxable conditions, the value for tax is the duty paid value shown on the entry. The duty paid value so shown will include the full amount of duty normally payable and the amount of duty remitted under the relevant Order in Council is **not** deductible from the duty paid value when computing the tax or taxes payable, even though any duty remitted will be shown separately on the entry.

When goods are imported by a licensed wholesaler or a licensed manufacturer sales tax exempt, and subsequently sold by him under taxable conditions, the tax will be payable at the applicable rate based on the duty paid value as shown on the Customs entry before deduction of any remission of duty.



G. L. Bennett,
*Assistant Deputy Minister of National Revenue,
Excise.*

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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Translated by the General Bureau for Translation, Secretary of State.

ALISTAIR FRASER,
The Clerk of the House

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1968

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS
Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 23

WEDNESDAY, FEBRUARY 7, 1968

RESPECTING
Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

The Honourable C. M. Drury, Minister of Industry. Mr. J. J. McKennirey, Director, Machinery Branch, Department of Industry.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hales,	Mackasey,
Beaulieu,	Hees,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Irvine,	Monteith,
<i>Cowichan-The Islands</i>),	Laflamme,	More (<i>Regina City</i>),
Cantin,	Latulippe,	Noël,
Comtois,	Lind,	Thompson,
Flemming,	Macdonald (<i>Rosedale</i>),	Wahn.

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, February 7, 1968.

(32)

The Standing Committee on Finance, Trade and Economic Affairs met at 3.50 p.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cantin, Clermont, Gilbert, Gray, Hales, Hees, Irvine, Latulippe, Lind, Macdonald (*Rosedale*), Noël—(11).

In attendance: The Honourable C. M. Drury, Minister of Industry. *From the Department of Industry:* Messrs. J. J. McKennirey, Director, Machinery Branch; H. H. Wright, Industrial Policy Advisor; L. F. Drahotsky, Chief, Industrial Policy Division.

The Minister made a statement on the machinery programme and was questioned. He was assisted by Mr. McKennirey in answering questions.

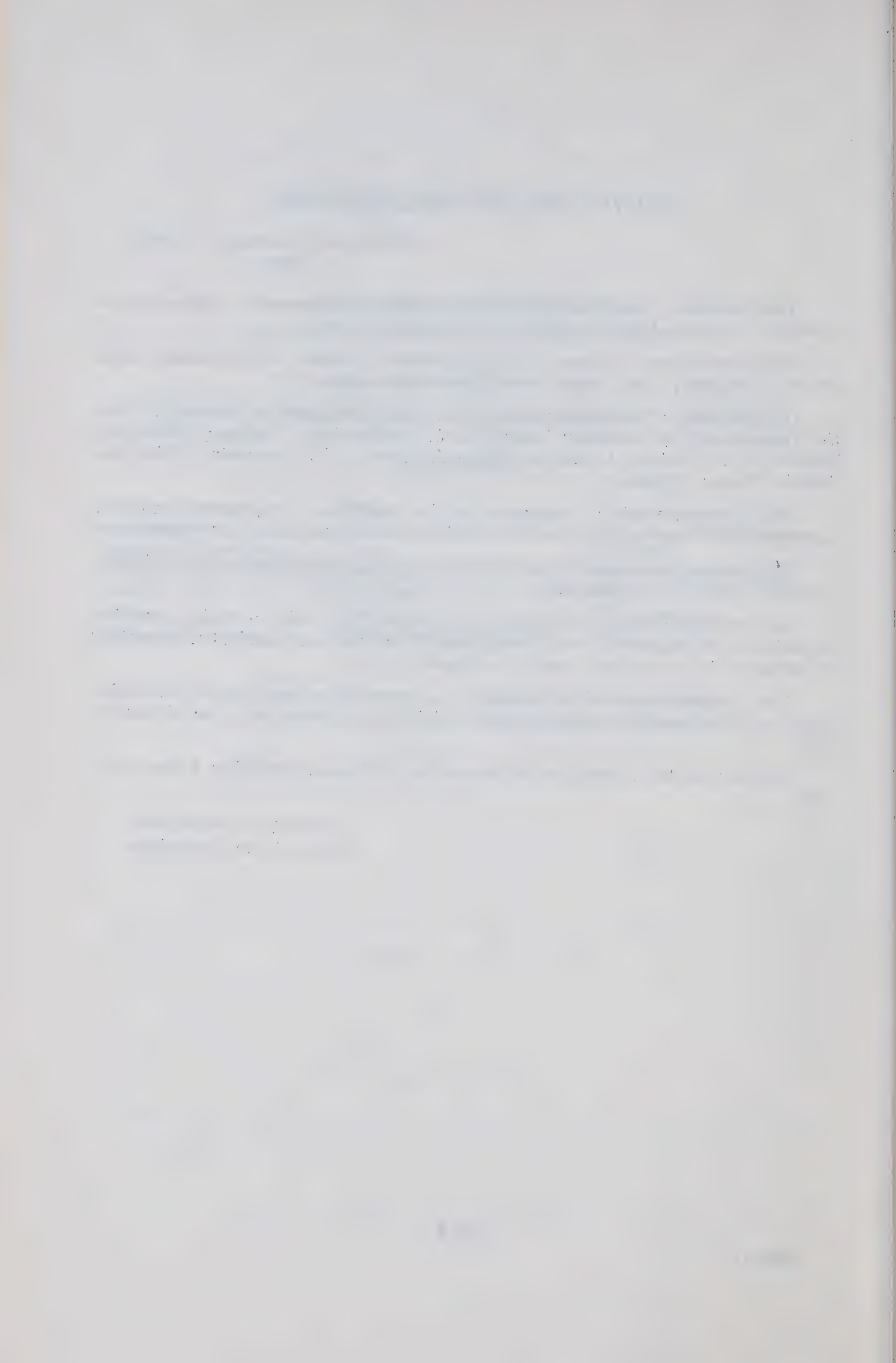
At the conclusion of the questioning, the Chairman thanked the Minister and the officials, who withdrew.

In accordance with the decision of January 18, 1968, a reply from the Department of Manpower and Immigration to a question raised at the meeting of January 18, is attached hereto as *Appendix AA*.

The Committee agreed to include as an appendix a telegram to the Chairman from the Canadian Machine Tool Distributors Association. (*See Appendix BB*).

At 5.45 p.m. the Committee adjourned to 11.00 a.m., Thursday, February 8, 1968.

Dorothy F. Ballantine,
Clerk of the Committee.



EVIDENCE

(Recorded by Electronic Apparatus)

Wednesday, February 7, 1968.

• 1554

The Chairman: Gentlemen, I think we can begin our meeting, on an unofficial basis for the moment. Our witness this afternoon is the Hon. C. M. Drury, Minister of Industry. I invite the Minister to present his opening remarks immediately and then we will proceed to discussion.

The Hon. C. M. Drury (Minister of Industry: Mr. Chairman, at the outset I would like to thank you and the members of the Committee for having us come here to discuss the Machinery Program as envisaged under Tariff Item 42700-1.

I welcome the opportunity to present my views on this particular program which I consider to be of major significance as a means of encouraging the development of efficient Canadian manufacturing industry.

I would also like to take the opportunity, Mr. Chairman, to join my colleagues, Mr. Sharp and Mr. Winters, in expressing my appreciation of the work which this Committee has been doing. It certainly will be of great assistance to Parliament and is providing an effective forum for examination of the tariff resolutions related to the Kennedy Round.

• 1555

Turning to Tariff Item 42700-1, I would not propose to take up the time of this Committee by repeating the presentation I made to the House of Commons on December last 12 at which time I explained why the government was proposing the program and how it would be administered. Instead, I would like to speak particularly to those aspects of the subject which appear from the evidence to be of special interest to the Committee.

A single tariff item, that is, 42700-1, is being proposed for all machinery falling under the general heading "machines, not otherwise provided for". The rates are 2½ per

cent British Preference; 15 per cent Most Favoured Nation. This new item replaces 18 previous items for machinery, the most important of which had included class or kind distinctions which have been a source of difficulty and uncertainty for manufacturers and users of machinery for many years.

With the introduction of this new single item at rates of 2½ per cent BP and 15 per cent MFN, if nothing else were done, Canadian industry requiring machinery not available from Canadian production would be paying customs duties largely at 15 per cent with obvious adverse consequences to their costs. It seemed sensible, in the national interest of improving the competitive position of Canadian industry, to make provision for remission of duty in such cases. This we have done. Moreover, since the effect of such a policy would be to reduce the average incidence of duty on imported machinery, we were able to get credit for it from our trading partners.

Remission of duty is provided for in Tariff Item 42700-1, in the following terms:

The Governor in Council on the recommendation of the Minister of Industry may, whenever he considers that it is in the public interest and that the goods are not available from production in Canada, remit the duty specified.

Two tests are proposed as a basis for determining when remission of duty should be granted. The first is that the imported machinery is not available from production in Canada. This is a matter which requires examination on a case by case basis and, in my judgment, can be most effectively dealt with as a practical matter of fact and industrial experience, rather than by law and juridical procedures.

The second test for granting remission is that it must be in the public interest.

I understand that interest has been expressed in this Committee on the significance of this clause. Basically, its purpose is quite simple. It recognizes the government's overriding responsibility to administer this

provision for tariff relief in a manner that is compatible with the basic reason for remitting duty, namely, to help the country by assisting Canadian industry to become more competitive. In this connection, I should recall for the Committee that section 22 of the Financial Administration Act which is the basic provision in our financial legislation for remitting taxes, fees, duties, and the like, by Order in Council, is itself based on a single test, namely, the public interest.

In the typical case, the two tests of availability and public interest would be complementary; that is, it would normally be advantageous to reduce production costs in Canada by remitting duty on machinery not available from Canadian production.

I appreciate the concern which has been expressed during this Committee's proceedings in respect of the "public interest" test. No one, I think, would wish to argue that the public interest is not a fundamental requirement of any government measure. Moreover, as a member of this Committee has aptly noted.

its application is one that is ultimately decided by people who can be held politically responsible for it.

However, the question remains as to whether the specific reference to this criterion could lead to inconsistent or arbitrary treatment in certain cases.

I do not believe that there is any danger in this respect, not only because the government can be held politically accountable for its actions, but also because of the methods and procedures to be followed for dealing with applications for remission. As I have stated earlier, remission of duty will be regarded as being in the public interest in the typical case, provided the imported machinery is not available from Canadian production. All interested parties have been so advised in a widely distributed official information bulletin. The Order in Council establishing the terms of reference for the Machinery and Equipment Advisory Board makes this crystal clear. Given these facts, and having in mind that the government will have granted remissions in thousands of cases where imported machinery is unavailable from Canadian production, it would need to have a very good reason, and a convincing one, should it decide to single out a particular applicant for denial of remission on the grounds of public interest.

In my judgment, this consideration would govern from day to day, and from month to month, no matter who may be the Minister, or the government in office.

I do not expect that many situations will arise where the government will consider it necessary to deny remission on the grounds of public interest. If they do arise, I believe it is both the duty and the right of government to take such a stand for good and justifiable reasons which it is prepared to expose to public view.

I think it is useful to note that the Industrial Research and Development Incentives Act, which was passed last year, requires that the applicant for a grant must satisfy the Minister of Industry that the research and development involved is likely to result in benefit to Canada. Inclusion of this criterion was fully endorsed during the discussion of the bill by the Standing Committee on Industry, Research and Energy Development, and in subsequent debate in the House.

• 1600

At this point, Mr. Chairman, I would like to deal with the functions of the two boards that will assist in implementing the Machinery Program, namely, the Machinery and Equipment Advisory Board, and the Machinery and Equipment Review Board.

The Advisory Board has been established by Order in Council pursuant to section 15 of the Department of Industry Act and its membership and terms of reference are known to this Committee. As its title indicates, it is not an administrative or regulatory body. Its function is to advise the Minister of Industry which imported machinery is eligible for remission in accordance with the directive set out in the Order in Council. The Board is being assisted by the specialized branches of the Department of Industry who carry out all the detailed scrutiny and analysis required by the Board.

The Chairman of the Advisory Board will be a man who has had extensive experience in trade and customs matters. He and the other members of the Board are persons who, because of their experience and position, are eminently qualified to advise the Minister in respect of remissions under the Machinery Program.

As the Committee will have noted from the Advisory Board's terms of reference, detailed instructions have not been set down in

respect of the public interest test. The guidance which has been provided on this point is that remission should normally be regarded as being in the public interest when the criterion of availability has been met but, and I quote

There may be instances, however, where the Board finds that the policy or practices of an applicant for remission are not consistent with the development of efficient Canadian industry. In these instances, the Board may advise the Minister that remission is not in the public interest.

It may well be that, on the basis of experience, the Governor in Council may wish at a subsequent date to spell out rather more precisely the considerations which it would wish the Board to take into account when rendering its advice in respect of the public interest test.

I do not think it would be useful at this point to cite hypothetical examples where remission of duty would not be granted on the grounds of public interest. Such examples might be taken to imply that the government has adopted precise positions in this respect when such, in fact, is not the case. I would be pleased, however, to try to answer any questions on this matter which members of the Committee may wish to raise.

I should explain to the Committee that in all cases where an applicant is denied a remission he will be so informed and, at the same time, will be told why his application has been turned down. At this stage, the applicant would be free to ask the Minister to have his case considered again and a Review Board would be set up for that purpose by the Governor in Council, pursuant to section 15 of the Department of Industry Act. The Chairman will be selected because of the disinterested vantage point which his experience and position in the community would enable him to take, and the two other members will be drawn from those sectors of industry that are important users and manufacturers of machinery.

The terms of reference of a Review Board would be to review the basis on which the Machinery and Equipment Advisory Board had rendered its advice. The Review Board would be expected to examine the facts and considerations of the case, including any new facts or considerations which may not have been available to the Advisory Board. It

would then prepare a report for the Minister. Such reports would, in the ordinary course of events, be made public unless the firm in question requests otherwise for reasons of commercial confidentiality. Except in the most unusual circumstances, the advice of the Review Board would be given effect. Should a case arise where the advice of the Review Board is not accepted, a full explanation would obviously be required.

• 1605

I believe that the approach which is being proposed in respect of granting remissions under Tariff Item 42700-1 protects the rights of all interested parties and, at the same time, is quick, economical, and straightforward. I appreciate that the approach is administrative in nature rather than juridical, and submit this is properly so because the considerations involved can be most effectively handled as a practical matter rather than a matter of law or regulation.

Mr. Chairman, I commend the Machinery Program to this Committee as an important measure for encouraging the development of efficient Canadian industry by allowing users of machinery to acquire capital equipment at the lowest possible cost and, at the same time, enabling machinery producers to derive maximum incentive and encouragement from the tariff which will now apply, with a greater measure of certainty, to the products they manufacture.

Thank you, Mr. Chairman.

The Chairman: Thank you, Mr. Drury. I note for the record that we have been in the position to proceed officially for some minutes now, and I would like to take care of two procedural matters.

First, I have an answer to a question asked by a member of the Committee when D. R. Campbell, Acting Director of the Planning and Evaluation Branch of the Department of Manpower, appeared before us, indicating that his study of the United States Trade Expansion Act did not contain a provision for advance notice of layoffs either to government or to the workers in the United States. Of course, in line with the policy we adopted earlier, this will be printed in our *Proceedings*.

Second, I have circulated to members a copy of a telegram I received dated February 5 from the Canadian Machine Tool Distributors' Association supporting the government's

Machinery Program and I ask whether the Committee consents to having this printed in our *Proceedings*?

Some hon. Members: Agreed.

The Chairman: Now we will proceed to questions and exchanges of comments with the Minister. Those interested in taking part will signify in the usual way. I already have Mr. Hees on my list and I also recognize Mr. Clermont and Mr. Hales. We can add other names as we go along. Mr. Hees?

Mr. Hees: Thank you, Mr. Chairman. When the Minister was outlining the program, he mentioned a certain type of occasion when a remission of duty is not granted even though the machine in question is not made in Canada, and I am rather interested in the kind of circumstance that would make it possible. Would the Minister elaborate a little on that?

I think this was described as a case where the members of the Machinery Advisory Board would consider that it was not in the best interests of Canada, or something to that effect. What kind of situation would that be?

Mr. Drury: Mr. Chairman, this is rather difficult to spell out. As I tried to make clear in my statement, this qualification that the remission shall be in the public interest is a rather positive approach contained in almost every public statute of this country, and it seems to be almost an expression of the obvious to say that the Board must act in the public interest.

It is difficult to conceive a circumstance in which an application would be put forward by a man who was not acting in the public interest, but if he were not acting in the public interest—and I find it hard to define these circumstances because, as perhaps the Committee will recognize, they very rarely arise—I would expect that the mere fact of availability would not in the face of being against the public interest, that remission would be allowed.

Mr. Hees: I would like to ask a question or two regarding dumping regulations and I know that this is more applicable to the Minister of Finance. Unfortunately the Minister of Finance came on the very first day, I believe, and gave his views on various matters, but the question of anti-dumping and the difficulties connected with the new proposed GATT anti-dumping provision had not come up at that time.

• 1610

It has come up a number of times since when various presentations were made to us by industrial associations, producers, and so on. Therefore, I would like to ask these questions of the Minister of Industry even though he is not so closely connected with dumping, because I am sure that as head of a Department concerned with the protection of industry and geared to help industry progress in this country, he will be familiar with the anti-dumping regulations.

First of all, one thing that bothers me is the provision as I understand it—and I would like to be corrected if I am wrong—that anybody who wishes to export into this country is allowed one free dump. That is the expression that has been used on a number of occasions. As I take it, and again I hope I am wrong, it means that once these new regulations come into effect if somebody wants to sell goods in Canada they can bring in a shipment and there is no limit to how big that shipment could be, and are allowed to bring it in and sell it and, as I understand it, there is nothing to stop them from doing this. The thing that worries me, having been a businessman and a producer in the very sensitive field, of textiles for some 20 years, is that I know how serious dumping can be, even under the old regulations. I also know that a producer could bring in—especially an American producer if production is very large—a very large shipment at a dump price and if he were to sell it he could put a whole industry out of business before he could be stopped.

From practical experience I know there is a great tendency on the part of Americans in particular, and others, to dump in this country if they can. It is well known in the textile industry—we were up against this consistently when I was in business—that the really big producers in the United States make tremendous runs of textile goods. They cannot afford to run out of a line of goods before the end of the selling season so they deliberately overrun by 5 to 10 per cent to make sure they do not have to start up their machinery again—which is a very costly procedure—to fill orders which they guaranteed their customers would be filled if they had a good selling season. What they did in those days—and it was very hard to stop them—was to have 5 to 10 per cent overrun and then they would make one small sale to someone who would guarantee to keep the goods off the regular market and not upset the selling pattern and

then use that invoice as a fair market value and dump the goods in Canada. This was extremely upsetting to the Canadian textile market because our market is so much smaller.

Can the Minister give us any information about this first free dump which the people who have come here have spoken about and expressed great concern over?

Mr. Drury: Frankly, I do not know. The new legislation has not been enacted.

Mr. Hees: No, but it is being discussed.

Mr. Drury: It is being discussed. I would suggest—one should really enquire of the Department of National Revenue—it is not a case of allowing one free dump. In practice one's interest is in establishing the background. If this is not allowed or the consignment is held up at the border until such time as dump or non-dump can be established, this really would produce quite a serious barrier to the movement of goods. There would be no way of determining whether the complaint that was causing the hold-up was frivolous or real, and if there is to be no hold-up on the first basis the first time, it is rather difficult to go all the way back through the machinery and collect increased duties. I think it is really for administrative reasons—when you say “allowed”—that attempts are not made, even though theoretically and, I think, legally as well it is possible to go back to collect or impose duties retroactively.

• 1615

Mr. Hees: Knowing how long it takes to get the wheels of any government—just “government” in general—in operation with regard to boards—I saw this when I was in business and from my experience both in government and in opposition—I think it could well take several months before you could get a hearing and before a decision is reached. During this time, as I see it, very large producers in the United States or in Japan could bring a very large initial shipment into this country and start selling it. As I understand it, it must then be proved, not just that the price at which these goods were sold hurt one manufacturer or producer, but that it caused—I think the expression is—general injury to the industry.

From the time the goods arrive and start selling in outlets all over Canada—and they would start selling like hot cakes if they came

in at a very low price;—bargains would be advertised and housewives and others would flock to stores to buy them,—but until a hearing could be held before the appropriate board, and injury to the entire industry is demonstrated and a ruling brought down, the whole industry could literally be put out of business. I say this because I know the harm that was threatened by large shipments of Japanese goods, transistor radios, stainless steel flatware and canvas footwear, specifically, and the pressure we had to bring to prevent them from coming in from Japan. If they had been allowed to enter Canada in the size of shipments they desired, whole industries and communities would have been put out of business.

As a practical businessman I am very worried about this. It was suggested that the time to discuss this question would be when the draft legislation is presented. From past experience I know that will be too late. We all know—I am not blaming this government, it is the same with any government, it was with us—that once draft legislation has been prepared, from the Minister down those who prepared it feel that they have a vested interest in it, a pride of authorship, and for some reason they feel that if it is changed it is a criticism of them.

My reason for putting these views forward to the officials here—and I hope these views also reach the proper officials in other departments—is that these very real practical difficulties can be looked into now and I would hope something could be done to avoid these very real problems which, I am sure, will take place if something is not done before the legislation is introduced.

Perhaps the Minister of Industry cannot give me the specific answers I want because it is not his department, but he is the only one that I can reach. I hope he will bring this up with his colleagues.

Mr. Drury: I will be glad to see that your ideas are passed on.

Do you have any concrete suggestions to make as to what should be done?

Mr. Hees: I think the old system of fair market value in the home market was about as practical a method of dealing with this as possible. As I said earlier, there were ways by which they tried to get around it, especially the American textile manufacturers, by selling at a knock-down price to one producer and then producing that invoice. The way we

would counteract them would be to prove that was not the general price at which that merchandise was sold. It was fairly easy—if you were a manufacturer and knew the country—to find out from your contacts in the country of concern just what the general price was at which the goods were sold on the regular market during the year—this would involve end-of-season clear-outs—and you could stop it fairly easily in that way.

Although that system was not perfect, I think it was much better than this new system where you have to prove injury to the whole industry. I think that is going to be a very lengthy procedure. After all, injury is really a matter of opinion. How badly do you have to injure an industry before it is considered by the government to have been injured? It is a matter of judgment. I do not believe goods should be allowed to be sold in competition with Canadian goods at a price lower than the market price at which they were sold in the country of origin. It is about as simple a basis as you can arrive at, and although it is not perfect I think it is a lot easier than this new system.

• 1620

We agreed—perhaps we had no choice but to agree—to the new GATT arrangement, but I know from practical experience that other countries devise very ingenious methods for stopping our goods going in when they are considered to be a serious threat to the goods of the country concerned. I am sure the Minister is also very familiar with them; import quotas, border taxes and all kinds of methods to slow down delivery of goods. I know the American Customs have been very adept in the past by simply taking a long time to clear shipments. By the time your shipment gets cleared, the selling season is over and your goods are dead. Perhaps we will have to devise some system of our own to protect Canadian manufacturers.

I hope these matters will be seriously considered by the government when this legislation is being prepared. That is my reason for bringing it up today. That is all I have to say, Mr. Chairman.

The Chairman: Mr. Clermont.

[Translation]

Mr. Clermont: Mr. Minister, you made a statement before the House of Commons on December 12 with regard to the program concerning machinery.

But before making this statement in the House of Commons, did your Department ask for comments from Canadian industries with regard to the machinery program? Was a Committee set up in this regard?

Mr. Drury: A committee was set up by the Department of Industry.

Mr. Clermont: The Department set up a committee?

Mr. Drury: Yes.

Mr. Clermont: Was it a committee in which Canadian industry would be able to have its views expressed with regard to item 42700-1.

Mr. Drury: No, there was no formal committee but there were talks with the representatives of several institutions. For instance, the Canadian Manufacturers' Association, which expressed its opinion and, if I recall correctly, yesterday or the day before, before this Committee, the representatives of the Machinery Importers' Association gave us their views. But they gave the same ones a few months ago to us. The Machinery Importers Association also expressed their point of view to the Department and repeated these views to the Committee. We also called in representatives from each sector of industry to see that their interests were being protected. However, there is no over-all committee including all interests that was formed.

• 1625

Mr. Clermont: In one word, the Canadian industry or some sectors of Canadian industry, did inform you of their views.

Mr. Drury: Yes.

Mr. Clermont: Secondly, Mr. Minister, with regard to the review committee or review board, I think that one of your officials said that the appointment of members to this board would be ad hoc. Do you mean to say that it is only when you have review cases that come up and that you intend to appoint a board—a more or less permanent board because there have been some apprehensions expressed before this Committee with respect to the fact that if the board is not a permanent one some requests might perhaps be delayed by several months.

Mr. Drury: Something has been tried out with the import of machinery, with the remission with regard to the Automobile

Pact. However, we have poor results with the experience of these matters of remission and competition. There were conflicts of interest between those using the machinery which is imported and those who produce such parts.

The method of procedure—the method of settling these conflicts were rather well developed. So far there has not been a single complaint so it is my hope that with the operation of the new board being proposed now there will be no complaints and that a permanent tribunal will have nothing to do.

If there are any complaints, if there are any reasons for appeal, and I hope there will be none, we can rather quickly establish a review board.

Mr. Clermont: Mr. Minister, in your statement, (page 14 of the French version) to the House of Commons, in the second paragraph I read as follows:

The minister of Industry would normally accept the conclusions of the inquiry board.

Would you be ready to give some explanations with regard to the expression “normally”.

Mr. Drury: Normally means in principle, in theory, almost always. If there are any reasons not to accept the views of the review board they will be published. But for the moment I could not see any reason why we would not accept these views.

Mr. Clermont: In the release given by the Prime Minister on December 27, with regard to participation of your Department in research for certain companies which would not have the financial means to carry out this research, there is some question of your Department being able to participate to the amount of 50 per cent or to a proportion of 50 per cent.

What will be the criteria according to which your Department will meet a request by a firm for such participation?

Mr. Drury: The Department lacks funds and, of course, if it is a large firm such as Imperial Oil that tries to seek assistance for their problem with regard to economic research, the Department will certainly take a long look at such a request. In the case of a small firm which decidedly does have the funds or the necessary means to pay for research and advice, of course, we will have

to help them pay for the research and establish a viable program—economically viable program—so that they may continue their operations by seizing opportunities for export which we hope will be found through the Kennedy Round negotiations.

Mr. Clermont: In a brief which was tabled by the witnesses, Messrs. Gordon Hooper and Jean Richard, barrister, they expressed certain apprehensions on the part of their clients with regard to the two criteria so that the equipment will be accepted free in Canada. The first is availability and the second, public interest. In their brief, if I may refer to page 5, they claim that it was not necessary according to the Kennedy Round agreements that Canada include the criterion of availability.

And, secondly, with regard to public interest—this is what I read on page 5 of the brief submitted by these people. This is from the French version of the brief and it reads as follows:

• 1630

The criterion of public interest if applied as proposed by the Minister of Industry could result in an importer or user of machinery who would be entitled to import free because of the fact that the machinery is not available in Canada might be deprived of his right to import free as a result of the decision of the advisory board and the review board or the Minister because these people feel that importing free is not in the public interest. This is a very large, discriminatory criterion which was not anticipated when Canada gave this commitment to the supplying countries.

Mr. Drury: As to the first criterion, that of availability, I do not understand very well what Mr. Hooper means when he says that it is not a necessary criterion. The agreement we have with our partners in GATT—the agreement on this particular tariff item—is very clear and the agreement states that if there is no availability in Canada imports will be free.

Therefore we have to establish whether or not there is any availability in Canada.

As for the second question I agree with Mr. Hooper that this is a very wide criterion but since Mr. Hooper is here I should like to explain to him that this is a criterion which

governs, or which should govern at any rate, each action and each motivation on the part of government. Moreover it should motivate action, the action of this board, both the Advisory Board and the Review Board.

Mr. Clermont: In this same brief, Mr. Minister, it is suggested, following the recommendations of the Advisory Board and the Review Board or even as a result of a decision you might take as Minister of Industry advising the Governor in Council that a right of appeal be granted as is the case of rulings on the part of the Tariff Board. Let us say an appeal to the Exchequer Court.

Mr. Drury: We have done our best in this program to avoid delays and costs as well as hinderances of courts. Here there is no question of denying or refusing the rights of anyone at all. It is primarily the fact of giving a privilege to importers if a certain condition exists and if this condition does not exist the privilege of course is then denied. In this case in my mind there is no question of refusal of rights of anyone and for this reason it is not necessary to make an appeal or to have recourse to the judicial process or to an appeal court or to the Exchequer court.

[English]

Mr. Clermont: My last question at this time, Mr. Minister, will bring you the other side of the picture, and I refer to the brief presented by the Machinery & Equipment Manufacturers' of Canada. Page 3, Article (1) contains their recommendations, and I quote:

Previously, the "made" and "not made" criteria have created confusion both for the manufacturer and the user of machinery and equipment in Canada. We ask, therefore, that the criteria of "availability" be such and be maintained to the benefit of Canadian Industry generally and be based upon Canadian capabilities, both for the present and the future and not be allowed to become a series of controversial and "ad hoc" decisions.

[Translation]

• 1635

Mr. Drury: I hope that we have achieved the aims set forth in this document.

[English]

The Chairman: Mr. Hales?

Mr. Hales: Thank you, Mr. Chairman. My questions will revolve around the mechanics of this particular piece of legislation. As I

review what we have done in the past, the Department of National Revenue took care of classifications and decided on certain matters regarding imports and the tariffs that applied thereto. The Department of Finance set the rates through legislation and through Parliament, and now we have the Department of Industry coming into this picture. My question is: What becomes of the department in the Department of National Revenue that previously handled all these matters concerning machinery? Are these people being transferred to the Department of Industry or what is the relationship between the two departments now?

Mr. Drury: I understand that an answer was provided to an almost similar question at an earlier meeting of the Committee. In brief, the work previously done in administering the class or kind regulations within the Department of National Revenue has now disappeared. Consequently, the staff that were engaged in this have been shifted to other duties; I do not know the details but, I suspect, within the Department of National Revenue. I do know that four of these men are now within the Department of Industry forming part of the staff of the Board.

Mr. Hales: I was interested in whether the Department of National Revenue was losing its official function and duties and whether we were not getting into an area of overlapping. However, you have given me the answer and I regret that I was not at the meeting when this was outlined in the early stages.

Has the Chairman of the Advisory Board been chosen yet?

Mr. Drury: Not yet, sir.

Mr. Hales: Will the Chairman be a member of the Public Service or will he be a person from outside?

Mr. Drury: We are looking for a man either in or outside the Public Service who has considerable experience in tariff and customs matters. Obviously, this kind of background will be very useful indeed. If we can find a Chairman, no preference will be given to a man who is either inside or outside the Public Service; he will be from wherever we can discover a man with the best capabilities for doing this job.

Mr. Hales: It may be that the man from the Department of National Revenue who did this

work previously might be worth considering. I do not know; I just say that in passing.

The part of the whole legislation that disturbs me is the fact that it gives too much ministerial discretion. It says that anyone that is denied remission must ask the Minister of Industry to have his case reviewed. The Minister can say you may or you may not have your case reviewed, and it appears this certainly is getting into a very broad field of ministerial discretion which we have always tried to steer away from in responsible government.

• 1640

However, it remains to be seen how this will be used but it is certainly very evident in this whole documentation that it rests with the Minister of the Department as he sees fit and that, in turn, is decided by those in the Department. I am very doubtful about extending this much discretion to an authority. However, it is there and I guess it is too late to change it and we must just wait and see the reaction.

Mr. Drury: Mr. Chairman, I do not think it is too late to change it if there is a better way that can be suggested of achieving what we are seeking to achieve. This is not a notion that has been gestated by functionaries in the Department of Industry. I think some evidence has been given to the Committee that this scheme, both in its purpose and in its procedures, represents what to me is a very satisfactory consensus of those who have an interest in this, namely, the users and the manufacturers of machinery in Canada. We were careful to keep them continuously advised not only of our views but the views of others and we have arrived, I think, at what is a quite satisfactory *modus operandi* and certainly the manufacturing industry concerned have been prepared to give it their blessing. If someone were to come along with a better idea, let me assure you I would be most receptive.

Mr. Hales: I do not think there is place for argument at the moment, but I think our old system worked pretty well and there were not too many complaints other than that the Tariff Board took too long to hand down decisions. Outside of that I think it worked perfectly well, but the Tariff Board were too slow, or we did not have enough sections in the Tariff Board to hand down decisions.

However, I have one final question on availability. It says that machinery will be considered as available in Canada if at least

one manufacturer has proven capability to manufacture machinery, and so on. If another machine is available that is not made in Canada, and this manufacturer is making a series of machines but there is one available with a slight technical difference or that has some technical advantages, how would you rule on a case like that?

Mr. Drury: To begin with, it is a little hard to talk in general terms. You will be glad to hear that I will not be giving the rulings; it will be people who know something about it.

Mr. Hales: In the final analysis, you will be.

Mr. Drury: No, in the final analysis it will be my job to see that justice has been done, and in so far as I am concerned personally with giving rulings, it will be on the strength of one set of representations made by the Advisory Committee and objections to this advice by someone who imagines he is aggrieved. My refuge will be, if I may use the term, to appoint a review board that will be equally experienced to produce a reconciliation of these views.

Mr. Hales: In that case the review board will take the place of the present Tariff Board, I suppose.

Mr. Drury: It will not take the place of the present Tariff Board; it will perform in respect of this particular matter the functions in an appeal sense that the Tariff Board now performs in what I would hope would be a very much shorter period of time and in a rather less formal, less legalistic way.

Mr. Hales: Thank you, Mr. Chairman.

The Chairman: Mr. Gilbert?

• 1645

Mr. Gilbert: Thank you, Mr. Chairman. Mr. Drury, last week we had before us the Canadian manufacturers of machinery and equipment and they told us that in Canada the manufacturers of machinery and equipment are composed of 60 per cent foreign-owned subsidiaries and 40 per cent Canadian. There was an expression of concern by the Canadian-owned manufacturers of machinery and equipment that they would have difficulty living with this sharp reduction from 22.5 per cent to 15 per cent.

I am wondering what your views are on it and what measures you would advise to help

the Canadian manufacturers if the trend in Canada is to foreign ownership in industry and we have 60 per cent in the machinery and equipment industry. It is becoming quite serious and I think some protection should be given to these Canadian-owned manufacturers of machinery and equipment. I am wondering what your views are.

Mr. Drury: Do I understand your suggestion to be that in respect of two Canadian companies—and these are companies incorporated under the laws of Canada employing Canadians and so on—one should look to the equity ownership and devise different rates for these two companies?

Mr. Gilbert: I am expressing the concern of the Canadian-owned manufacturers of machinery and equipment.

Mr. Drury: The Canadian shareholders of machinery...

Mr. Gilbert: Yes, you are right. They have a concern about the stiff competition they will meet as a result of the sharp drop in the tariff rate from 22.5 per cent to 15 per cent. Nobody in the domestic part...

Mr. Drury: Would not one expect this sharp drop in the tariff rate to affect the operations of foreign-owned companies to the same degree?

Mr. Gilbert: The answer to that, Mr. Drury, is that foreign-owned companies set up their subsidiaries in Canada for the express purpose of supplying the domestic market.

Mr. Drury: That was, perhaps, their original purpose.

Mr. Gilbert: That is right. In many cases they have neither the desire nor the control to determine their export policy and if we in Canada are concerned about exports it may mean that our exports will have to be increased by Canadian-owned manufacturers and I am just wondering what your views on it are because this is of serious concern to them.

Mr. Drury: My view, of course, is that Canadian manufacturing has to look to a much greater degree than it has in the past to export markets and one of the main purposes of Canada's participation in the Kennedy Round was to enlarge the opportunities for participation in the export market. Perhaps

the independently Canadian-owned corporation has less inhibitions, less restrictions placed upon it—I say perhaps—in exploiting the export market than would be the case with a subsidiary.

On the other hand, if the policy of the company controlling the subsidiary is such it might have just as great a desire to exploit the foreign market and perhaps also greater opportunities. What we as a Department are doing is endeavouring to see that all Canadian companies, whether they be Canadian-owned or foreign-owned, increase their efforts in the export market. In respect of the foreign-owned companies, we do what we can to see that no restrictive covenants are either imposed upon them or entered into by them which would limit their participation in the foreign market.

• 1650

Mr. Gilbert: Mr. Minister, if Canadian-owned manufacturers of machinery and equipment are exporting to the United States, I understand—and I am subject to correction by your officials—that the tariff rates are slightly higher in the United States than they are in Canada. Am I right or wrong?

Mr. McKennirey: Mr. Chairman, the tariff rates on machinery of the type that is covered by 42700-1 going into the United States at the end of the staging will be from 5 per cent to 7.5 per cent, whereas it will be 15 per cent coming into Canada.

Mr. Gilbert: Did they not complain of the acceleration of the reduction? I think ours is going to be a 7.5 per cent immediate reduction, whereas it is going to be staged in the United States. Am I right in that assumption?

Mr. McKennirey: Yes, you are right. The cut from 22.5 per cent to 15 per cent is in one step whereas theirs which, as I say, vary now somewhere between 15 per cent and 10 per cent will be cut down on a staged rate.

The Chairman: The existing United States rate is at the same level or lower than the rate we have in Canada under 42700.

Mr. J. J. McKennirey: That is right. They fragmented more. Some of the rates are 15, some are 11, some are 10 and so on, and they are moving them down to rates of 7½ to 5.

The Chairman: But at the moment they are not higher than our 15 per cent rate.

Mr. McKennirey: No they are not.

Mr. Gilbert: Mr. Minister, we will move on to another area, adjustment assistance. We note that you have given substantial assistance to industry in three forms: insured loans, direct loans, and payment for consultative services, but that you have done very little or nothing with regard to labour. The only thing that I see in the Minister's statement is some agreement that has been entered into between the federal government and the provinces with regard to retraining. Is that the only help that you are going to give to labour?

Mr. Drury: This plus—I think you will be aware of the concurrent announcement by the Minister of Labour—an intention to raise the levels generally under the Unemployment Insurance Act.

Mr. Gilbert: Does that mean that people who are laid off as a result of these adjustments will receive the higher rates under the Unemployment Insurance Act even though they would not qualify for them? They have to have a certain percentage of work weeks to be able to qualify; are you telling us that they will qualify regardless ...

Mr. Drury: No, I am not suggesting that, but some kind of transitional or more adequate assistance to those who are laid off is being provided through raising the Unemployment Insurance rates.

Mr. Gilbert: But they would have to qualify, you know, to get the rates. Suppose a person was laid off three months hence. He would not be getting the new rates because he just would not qualify for them. He would qualify under the old system of rates but he certainly would not qualify under the new system, Mr. Minister.

Mr. Drury: If he qualified under the old he would qualify under the new. I do not think the terms of qualification are being altered, it is merely the levels of contributions and benefits.

Mr. Gilbert: All I am saying is that three months hence he would not get the new levels because he has not qualified to obtain the new levels.

Mr. Drury: Are you referring to someone who has only been in the labour force for three months?

Mr. Gilbert: No, no. Suppose he qualifies under the number of contributions required

under the Act, are you saying that he will get the new rates or would he only qualify for the old rates?

• 1655

Mr. Drury: The new rates and the new levels of contribution become effective at the same time and if you are qualified for 50 weeks of benefits even though you have only contributed for one day at the new rates you get the 50 weeks of benefits at the new rates. You do not have to wait until you have earned them, so to speak.

Mr. Gilbert: I thank you for that clarification, Mr. Minister.

Mr. Clermont: May I ask a supplementary, Mr. Gilbert?

Mr. Gilbert: Certainly.

[Translation]

Mr. Clermont: Mr. Minister, with your over-all program, your transitional program, Mr. Gilbert gave to understand that in the program you announced in the House of Commons or in the Prime Minister's release that there is very little or no help for the worker. If your over-all program of transitional help is effective will this not help the workers?

Secondly, Mr. Minister, according to this program each employer if he has 20 or more employees would he not be required to give a 3 months notice? Then would the worker not benefit also by the retraining or vocational training program of the Department of Manpower?

Mr. Drury: The answer to both questions is decidedly yes. The best way of helping workers is by establishing or by helping to establish situations, and plants that are flourishing and prosperous. This program is directed towards this end.

As Mr. Clermont mentioned, in order to have a more efficient program of training and retraining the workers the employers have to give a notice of at least 3 months in order that retraining programmes be established for displaced workers.

[English]

Mr. Clermont: Thank you, Mr. Minister; thank you, Mr. Gilbert.

Mr. Gilbert: Mr. Minister, my first impression of the program was that it was a sort of socialism for the rich and private enterprise

for the poor, the socialism being for industry and the private enterprise being for labour, which is quite a change. You are one of the authors of the United States auto trade pact and one of your adjustment assistance programs was the TAB program, and I was just wondering why you did not bring in some of the provisions of the TAB program to assist workers in industry.

Mr. Drury: We looked long and hard at this but came to the conclusion, and I think it is a right one, that virtually every manufacturing operation in Canada is going to be affected, happily I hope, by the Kennedy Round and that therefore the TAB system would have to extend to every employee of every manufacturer. Because of the difficulties of trying to measure the extent to which a firm had been affected by the Kennedy Round as distinct from being affected by other economic phenomena we felt it would be almost impossible to work it out and that the most satisfactory solution would be to raise the level of benefits for everybody without attempting to classify them by cause of unemployment or cause of dislocation.

• 1700

Mr. Gilbert: Mr. Minister, you told us that you had informal discussions with the Canadian Manufacturers' Association, the Canadian Importers Association, and with other representatives from each sector of industry with regard to changes on 42700-1. Did you have any discussions or representations from labour organizations, or did you invite them to make representations?

Mr. Drury: We did not invite them to do that, no. It was the function of the Department of Labour to prepare a program for the employee group, if I can call it that. I think that function, more properly, resided with them, and the Department of Industry did not have discussions or negotiations with representatives of the employees.

Mr. Gilbert: Just one final question, Mr. Minister, concerning the statements that Mr. Hees made with regard to anti-dumping. The basis on which Mr. Hees proceeds in his statements is the assumption of one free dump. A question arises whether there was one free dump permitted under the old anti-dumping laws and what assumptions have we that it will prevail under the new anti-dumping code? This is the basis on which Mr. Hees proceeds and I am concerned to know

whether this is so, whether they are going to be permitted one free dump, because it did not prevail in the other legislation and I cannot see where it would prevail in the new legislation. I would like to hear your views.

Mr. Drury: When you say that it did not prevail, there was no legislative provision for one free dump, and I would expect that there will be no legislative provision for one free dump in the new legislation. Now, I say I "expect".

Mr. Gilbert: Well, this would be my assumption.

Mr. Drury: This is not my legislation so I am not giving any hostages. But as I did mention earlier, I think this so-called "one free dump" is an administrative practice rather than a statutory right, and I would be very surprised indeed if in the new legislation there were provision made for one free dump by anybody.

Mr. Gilbert: I think those are all the questions, Mr. Chairman. Thank you, Mr. Drury.

The Chairman: Are there any further questions or comments to exchange with the Minister at this time?

Mr. Hales: Mr. Chairman, I thought we were just dealing with the machinery program. Are we going on to the adjustment assistance part, or is this all part of it?

The Chairman: Well, since we have the Minister with us and since he has some responsibility for the program, at least from the industry side, it would be in order to ask him about such matters because his officials have already testified at some length on the detail of the program and there may be policy questions which you feel can better be directed to the Minister.

Mr. Hales: Has there been a statement issued by the Minister on the adjustment assistance program?

The Chairman: I think the general policy statement was issued by the Prime Minister during the Christmas adjournment, and it covered both the industry and the labour side. This formed the basis for our discussion of the details of the program with officials of the Department of Industry and also with the Parliamentary Secretary and the senior official of the Department of Manpower and

Immigration. The Minister responded to a suggestion made in the Committee and said that he would be particularly interested in attempting to answer some questions on the general policy or general method of administration of the machinery program which had been raised in discussion with his officials on this program which, it was felt, would not be quite appropriate to have dealt with by officials. I think the Minister has proven his willingness to also deal with the adjustment assistance program in so far as it is his departmental responsibility since he is here. So if you want to ask a question I certainly would rule it in order in the context I have mentioned.

• 1705

Mr. Hales: Thank you, Mr. Chairman. I would ask the Minister if the machinery that we have just been talking about is going to be administered by the same adjustment board now operative as far as the automobile and auto parts companies are concerned?

Mr. Drury: No, Mr. Chairman, it will be quite a distinct, separate board.

Mr. Hales: My next question would be: Why have another board? We are going to have so many boards and commissions in the Department that we will not know who to contact. I would think that the one board would be able to handle adjustment assistance for all manufacturers, whether it be car parts, this machinery deal or whatever it is, but I understand you are going to set up another board.

Mr. Drury: Well, we would hope on the new board to have a rather wider representation than on the rather specialized group which are dealing with the automotive program. This covers just a narrow facet of the manufacturing industry in Canada—an important facet but still narrow.

Mr. Hales: Machinery is machinery and I would think that the same board would be quite sufficient and quite capable of looking after the adjustment assistance program. We are getting into a field with so many departments, boards and commissions that a manufacturer coming to Ottawa does not know where to go. He is completely at sea, he is lost, and on top of all this it is costing the taxpayers of this country a lot of money. I am one of those who believes we have to start

curtailing some of this extravagance in connection with boards, commissions, and overlapping that we appear to be doing right in this particular Department. Here is one example that I suggest to the Committee. If we are going to have one adjustment assistance board for auto parts, one for other machines, one for the manufacturing of furniture, and one for something else, then we will be in no end of trouble. I am glad to hear from the Minister that at least some thought will be given, I hope, to one board handling all adjustments.

Would you mind explaining to the Committee what you have set up in the form of a board to handle the adjustments for the machinery trade? I do not mean the auto parts but the other one.

The Chairman: If I could interject, Mr. Hales, there may be some misconception here. As I understand it, at the moment there is an adjustment assistance board to carry out the special program of assistance to firms to help them compete in the Auto Pact climate, if I may put it that way.

Mr. Hales: Yes.

The Chairman: An advisory board was set up on January 1, 1968, to advise whether or not you should remit duty on imports of machinery...

Mr. Drury: This is quite an entirely different function.

The Chairman: ...coming under tariff item 42700-1. The adjustment assistance program, which Mr. Gilbert, Mr. Clermont, and now yourself, Mr. Hales, have been asking about is a general program to help all firms who feel that they will be injured by the Kennedy Round agreements or who hope to get greater export opportunities if they have some help. It is not limited to the machinery facet of our industrial picture.

Mr. Drury: Nor the automobile trade.

Mr. Hales: But if they want financial assistance, Mr. Chairman, it is handled by this particular board you just mentioned.

The Chairman: Yes, but this is not the advisory board which is set up to advise the Minister whether or not firms can bring in machinery duty free.

Mr. Hales: One is to advise whether or not you should remit duties.

Mr. Drury: That is right.

Mr. Hales: And the other is to give them outright grants to buy machinery so they can be more competitive in the automotive business.

Mr. Drury: No, I do not think anybody gets an outright grant to make them more competitive.

Mr. Hales: We will say financial assistance then.

• 1710

Mr. Drury: Loans. Not necessarily for machinery either, the loans are available for new buildings.

Mr. Hales: Then in connection with the adjustment assistance program for the machinery people you are going to set up another board.

The Chairman: Mr. Hales, that is what I was trying to clarify. The adjustment assistance program to which the Minister has been referring is not limited to machinery people but to Canadian industry generally to help them either readjust to injury because of the Kennedy Round or to get financing for new export opportunities, which is a much broader and quite different matter than the machinery program. Am I right in that, Mr. Minister?

Mr. Drury: That is right.

Mr. Hales: You say they are going to be giving loans to these people. There are short-term loans, long-term loans, and so on.

The Chairman: My point is that it is not just to the machinery industry.

Mr. Hales: It is to industry generally, is it?

Mr. Drury: That is correct, the industrial concerns that are affected by the Kennedy Round tariff changes arising as a consequence of the Kennedy Round discussions.

Mr. Hales: In this particular arrangement you said something to the effect that a manufacturer should advise three months in advance that he is going to lay off staff.

Mr. Drury: That is correct.

Mr. Hales: Do you feel that management can know three months in advance that they

are going to lay off staff? I would be very doubtful about this. Some of these changes could happen overnight and they could not give three months' notice.

Mr. Drury: In some of these changes the decisions can be taken overnight and, in a sense, can be crisis-type decisions. What is envisaged under this Adjustment Assistance Program is the development of a plan for a company of developing either new products or new markets made possible by the increased opportunities for export. Such a plan which involves changes in staff, in the plant lay out or in the product mix will require some physical changes and these presumably will have to be thought out and planned. If the government of Canada is going to insure a loan to the company to carry out these changes, to take advantage of the opportunities, then the Department of Manpower and Immigration wishes three months' notice of large-scale layoffs designed to carry out this plan.

I think you are aware of a number of firms in the automobile business who have modified, expanded and changed their operations quite substantially to take advantage of the automobile agreement and the plan to do this was not made overnight. To give effect to this plan there were, in a number of instances, quite large temporary layoffs while the physical plant was being made over. The Department of Manpower and Immigration demands 90 days' notice of a large layoff of this character so that it can make an adequate and comprehensive plan to see that these people are not just left on the street.

Mr. Hales: Does the manufacturer have to report to departments, other than Manpower? Does he have to report to the Department of Industry too?

• 1715

Mr. Drury: He would report to the Adjustment Assistance Board his whole plan and from the Adjustment Assistance Board would get the assistance he is seeking, and reporting to the Board on his plans for layoffs, either temporary or permanent, would be adequate. The Department of Manpower could be informed in this way.

Mr. Hales: I think you might except some comment from industry that there is too much government control of their business. I will have to wait and see about that too, I guess.

Mr. Clermont: May I ask a question?

The Chairman: Yes, of course.

Mr. Clermont: Mr. Minister, I think the three months' notice applies only when a secondary industry receives a guaranteed government loan from the bank or a direct loan from the government.

Mr. Drury: That is correct.

Mr. Clermont: Not industry in general.

Mr. Hales: But the Department of Manpower requests that it be given three months' notice if there is going to be a major layoff.

Mr. Clermont: Only in the case of a loan from the government?

Mr. Hales: Yes, just in the case of a company that has had a loan.

Mr. Clermont: Yes.

Mr. Drury: That is, applying for a loan.

The Chairman: I understand the government is taking the position that it does not have the constitutional authority to require this type of notice from every firm that might be making some changes as a result of the Kennedy Round and feels it can do so almost as one of the terms on which it would grant a loan to those firms which request loans, either direct or insured. It is almost a contractual matter.

Mr. Drury: It is a condition precedent to getting a loan that three months' notice will be given, and for those of you who do receive complaints from constituents about government interference in telling them how to run their business, the three months' notice is required only if they come to the government and ask for help. It does not seem to be an unreasonable request to make of someone who comes to ask for help that he exercise himself to take into consideration the least possible dislocation to his employees.

The Chairman: I suppose the employee of firms that are not asking for help would appreciate their employers giving them similar consideration.

Mr. Drury: I am sure they would.

Mr. Gilbert: Of course, they will be depending on the employers and not depending on any government regulation, Mr. Chairman.

27866—2½

Mr. Drury: There is no constitutional authority to oppose. It is a general regulation in this country.

Mr. Hales: Will the Minister enlarge on the answer he gave me in the House the other day concerning the question of whether or not Canadian subsidiaries of American companies will receive this adjustment assistance?

Mr. Drury: Would I care to...

Mr. Hales: Would you care to enlarge on the answer you gave me in the House the other day concerning whether or not Canadian subsidiaries of American companies operating in Canada would qualify for adjustment assistance loans?

Mr. Drury: There is not very much I can add to the answer, which was that if in all other respects a Canadian company—and by Canadian company I mean a company incorporated and operating under the laws of Canada—qualified for adjustment assistance, it would not be disqualified by reason of the fact that it was owned abroad.

The Chairman: Is it correct that you would take into account or examine carefully the possibility that such a firm might have access to financing from its parent?

Mr. Drury: Obviously this would be a consideration but then this would also be so if we were dealing with a subsidiary of a Canadian parent, and there are many of them.

• 1720

Mr. Hales: Ford of Canada would not qualify for an adjustment assistance loan.

Mr. Drury: Would not?

Mr. Hales: No.

Mr. Drury: Not by reason of being foreign owned; this would not be the reason for disqualification.

Mr. Hales: It would be because the parent company should put up the money itself, I would imagine.

Mr. Drury: Ford is not wholly-owned abroad. In any event, they are unaffected by the operation of the Kennedy Round. There is another special arrangement covering them.

The Chairman: Before giving the floor to Mr. Latulippe, I have noted, Mr. Minister,

that the trade adjustment program in the United States to help firms adjust to the Kennedy Round does not limit such assistance to the firms that are wholly owned by United States citizens or firms. It would appear from the Act that subsidiaries of foreign parents in the United States are no less eligible than American firms for assistance under the American adjustment assistance program.

Mr. Drury: This is my understanding.

[Translation]

The Chairman: Mr. Latulippe, you have some questions to ask?

Mr. Latulippe: Mr. Chairman, I should like to ask the Minister whether the object of this program is to decrease the cost of machinery. Is the object of this program in fact a decrease in the cost of machinery?

Mr. Drury: It is certainly with a view to reducing the cost of machinery, in favour of the importers.

Mr. Latulippe: Would there not be something to be done, for instance, with regard to American machinery which is sold at a certain price, and which could be produced by Canadians at much lower prices, but that Canadians cannot produce because of industrial property rights accepted by Canada?

There are a great many Canadian citizens who could produce machinery at much lower cost, but in view of such intergovernmental arrangements, it is very difficult for them to do so. Could your program provide for something in this regard so that Canadians would find it advantageous to manufacture certain machinery which is now made in the United States, but through patents or royalties cannot be made here in Canada.

Mr. Drury: It is a question of agreements on patents or agreements between private firms. It is very difficult for the government to make any changes in this regard.

Mr. Latulippe: In the interest of Canadians, it seems to me that the patent act might perhaps be changed in some way. American industries are certainly taking advantage of prices because we could manufacture them at half the price we pay for them over the border, but because we cannot manufacture them here, we are being exploited by Americans. Even if we have these programs, we can still manufacture machinery at a much lower cost

than what these programs are going to give to us.

Mr. Drury: So then what you are seeking is a way of forcing Americans to licence manufacture in Canada?

Mr. Latulippe: Not precisely. Similar machinery could be made, but because of the patents it is rather difficult. However, some American machines are made here in Canada, but the American firms ask for royalties to be paid by Canadians who manufacture their machinery. These royalties are rather expensive. Would there not be any agreements to be made in this regard so that certain machinery could be exempted? For instance, in the manufacture of furniture, mattresses, sewing machines, etc., almost all is manufactured in the United States, and prices are exorbitant. We could make them at a much lower cost in Canada. Would there not be some agreement that could be reached here?

• 1725

Mr. Drury: Yes, but the owners of the patents are going to ask who is going to pay for the research cost, and the only way to be able to recuperate the cost of research is through royalties. Consequently, the one who owns the patent or the copyright asks or requires a royalty. He does not look for the regulation of prices through the government.

Mr. Latulippe: But there is certainly some machinery that could be made at much lower cost. With regard to used machinery does it come exactly under the same criteria as new machinery?

Mr. Drury: Yes, I think so.

Mr. Latulippe: Let us say that new machinery is valued at \$10,000 and second-hand machinery, at \$5,000. Are you going to base yourself on the price of \$5,000?

Mr. Drury: Base what? On what price? There is no customs tariff on this, so the question of price does not come in at all.

Mr. Latulippe: There are certain customs tariffs; not all of them are changed. If you have a 35 per cent customs duty to pay and you give 15 per cent, there is certainly some margin left.

Mr. Drury: No, we are attempting to remove customs duty, so there is no customs duty. You do not go from one percentage

figure to another. This has no ordinary importance. Did I explain it properly?

Mr. Latulippe: Yes, I understand to a certain extent, but it is not very clear in my mind.

Mr. Clermont: The Minister might perhaps mention that machinery enters Canada free if it is not available in Canada.

Mr. Drury: Yes, of course, provided it is not available in Canada.

Mr. Clermont: Mr. Latulippe had not mentioned this in his question.

Mr. Drury: I thought he understood this.

Mr. Latulippe: Thank you.

[English]

The Chairman: I think it is Mr. Gilbert and Mr. Hales.

Mr. Gilbert: Mr. Minister, yesterday I discussed with the representatives of the Canadian Manufacturers' Association the problems of product specialization versus multi-model products such as we have here in Canada with regard to Canadian manufacturers. I cited the United States auto pact as...

Mr. Drury: We like to call it the Canadian-United States auto pact.

Mr. Gilbert: I am sorry...an example of product specialization and an agreement between countries which had been of advantage to Canadian manufacturers and of certain advantage to American manufacturers. I pointed out that in Canada we were paying \$50 million in remissions with regard to automobiles coming into Canada. I then asked them if there were any other products that would fit into this pattern or policy which the government had set forth in the Canadian-United States auto pact and they said, "At the moment, no". What are your views on this? Are there any other products which would fit into this formula of which you were part author and which may have been of an advantage to Canadians?

Mr. Drury: This is quite a specialized formula and I tried to indicate on a number of occasions that it is not susceptible of general application. There are possibly some other products which could fit into this format. However, it is quite clear that now is not the time to approach the Americans, particularly the American Congress, suggesting this kind

of further disbandment of the trade barriers when they are having some difficulty at the moment in digesting not only the present automobile pact, but also the forthcoming reductions under the Kennedy Round. I think the simple answer is that this is capable of some limited extension but certainly not at this particular moment.

• 1730

Mr. Gilbert: One of the representatives was asked what help Canadian-owned manufacturers required in order to be able to compete effectively with American-owned, and he cited more help in research. I might say that the person who gave this answer is the president of one of the largest corporations in Canada.

Mr. Drury: Who is getting quite a lot of help in research.

Mr. Gilbert: No, he is not.

Mr. Drury: From the government?

Mr. Gilbert: He felt they were not. It was Mr. Pollock.

Mr. Drury: He is not?

Mr. Gilbert: The impression I got from his answer was that Canadian-owned manufacturers were not getting the research assistance necessary for them to compete with foreign-owned subsidiaries in Canada and foreign competition.

The Chairman: Of course, we do not have the transcript available as yet, but I had the impression he was not complaining about what the manufacturers already were receiving, but he felt even more should be done.

Mr. Drury: Yes, with that I agree.

Mr. Gilbert: Have you in mind any further assistance that you could give to these manufacturers?

Mr. Drury: If by further assistance you mean new programs, not at the moment. It will be recollected that just last year there was introduced this new so-called IRDIA program, which is only beginning to take effect now. This system of grants is only beginning and one would expect that this assistance would flow out from the central government on a rising curve. I think probably what Mr. Pollock, either speaking as a company man or as a representative of the CMA, had in mind

was that the level of 1967 was inadequate. With this I would agree, but our program contemplates a rise in the curve. At the moment, until we see the extent to which advantage is taken of this, I would hesitate to bring forward additional programs.

Mr. Gilbert: I hope it is not too late for Canadian manufacturers. That was said with a smile, Mr. Minister.

Mr. Drury: Mr. Chairman, while Mr. Gilbert has the floor I might point out to him in respect to the subject in which he and Mr. Hees were interested, namely, possible legislative authority for a one-time dump, that in the discussions which took place in Geneva regarding what was really a universal dumping code rather than each country having its own regime, we represented strongly and had accepted the following provision relating to just this particular question.

Where for the dump product in question the authorities determined a) either that there is a history of dumping which caused material injury or that the importer was or should have been aware that the exporter practises dumping and that such dumping would cause material injury and b) that the material injury is caused by sporadic dumping, massive dumped exports of a product in a relatively short period to such an extent that in order to preclude it recurring it appears necessary to assess an anti-dumping duty retroactively on these imports the duty may be assessed on products which are entered for consumption not more than 90 days prior to the date of application of provisional measures.

So that there is an agreed provision to assess duties on a retroactive basis, assuming this is administratively possible, to cover this massive one-time dump.

Mr. Gilbert: Thank you, Mr. Minister.

Mr. Hales: I understand these adjustment assistance loans to industry affected by the Kennedy Round are going to be insured by the government.

• 1735

Mr. Drury: Loans by the usual lending institutions will be insured, which means that the government will assume the majority of the risk associated with the loan with a small portion of it assumed by the lender.

Mr. Hales: Of course there have not been any loans made as yet. Will there be any made before the end of this government financial year?

Mr. Drury: This will depend, Mr. Chairman, on the passage of the legislation and really on the speed with which prospective borrowers make application.

Mr. Hales: Is there any money set up in the budget for this purpose?

Mr. Drury: There will be provided in the estimates the monies necessary to cover the direct loans in the amount of some \$10 million and the insurance premiums.

Mr. Hales: This would be in the estimates that are to be tabled, for next year, but there is nothing in last year's estimates to cover this?

Mr. Drury: You are quite correct, it is not in this year's estimates or even in the supplementary estimates but in next year's main estimates.

Mr. Hales: So even if legislation was passed we have no authority to give any money to it until April 1, 1969.

Mr. Drury: That is correct.

Mr. Hales: I suppose it would be unfair to ask the amount set out in the estimates for this?

Mr. Drury: It would not be unfair to ask, but it would be unfair of me to give an answer.

The Chairman: I think Mr. Clermont has a question but before recognizing him I want to make a comment about our procedure.

With the conclusion of our discussion with the Minister we seem to have concluded our agenda of witnesses and are in a position to prepare our final report to the House. Perhaps Mr. Hales and Mr. Gilbert can help me. Do your parties have caucuses tomorrow morning?

Mr. Gilbert: Yes.

The Chairman: What time?

An hon. Member: There are no caucuses tomorrow morning.

An hon. Member: We had ours today.

The Chairman: Our caucus was supposed to be tomorrow but I understand it has been cancelled for this week. Mr. Hales, you had yours today in the customary way?

Mr. Hales: We had our caucus this morning at 9.30.

Mr. Drury: Just until 10.00.

The Chairman: Mr. Noël, would you agree with me that our caucus has been cancelled?

Mr. Noël: Yes, our national caucus is cancelled.

The Chairman: What I was going to suggest is that we have a meeting tomorrow to begin discussing our final report to the House. I will invite the officials from the departments of Finance, Industry and Commerce to be available tomorrow to cover the eventuality that we decide to go in camera to prepare a report, and if the members wish, we might have the further information that the members may request. However, since we do not have our full group with us at the moment I do not want to try and finalize any procedure for finalizing our report.

My own thought was, and I might request your comments on this, that rather than have the Steering Committee meet and prepare a report, we might sit down as a group around the table, because we are accustomed to working together anyway and discuss what final form our report might take. I will have something in draft form on which to base our discussion. What is the opinion of those present on the procedure I suggested to finalize our work on this reference?

[Translation]

Mr. Clermont: Mr. Chairman, you are undoubtedly speaking of a morning sitting.

The Chairman: Yes.

• 1740

Mr. Clermont: Yes, because you and I are both members of the Committee on Labour and Employment which is to sit tomorrow afternoon at 3.30 or after the question period.

The Chairman: Your comment also includes several other members of our Committee from other parties and my suggestion would be to have a sitting tomorrow morning and to cancel the afternoon sitting and if we have not finished with the work on our report to finish that work next Tuesday in the morning.

[English]

Thank you, Mr. Clermont, for reminding us of that point. I must ask the Minister and you, Mr. Clermont, to excuse me for interrupting in order get this procedural matter out of the way.

Mr. Gilbert: Mr. Chairman, we have no objection to meeting tomorrow morning.

The Chairman: Then we will agree, subject to any changes tomorrow, that we will have a regular meeting tomorrow, at which time we will decide whether or not we want to proceed in camera. We will not meet tomorrow afternoon.

Mr. Clermont: Would you mention the time that we will meet tomorrow morning?

The Chairman: We will meet at 11.00 o'clock in our usual civilized fashion.

Mr. Clermont, I think you had a question.

[Translation]

Mr. Clermont: Mr. Chairman, you were allowed a few questions with regard to agreements in the automobile industry between Canada and the United States. More often than not, we hear about the part which is supposed to represent the passive area of these agreements.

Does it seem that following these agreements, the federal treasury would be poorer by \$50 million or less per year? Unfortunately certain Canadian workers have lost, or would have lost their jobs, but would the Minister be then in a position to give the assets side of the ledger, that is to what extent new jobs have been created in Canada as a result of the agreements, and whether these agreements have increased our exports to the United States under the heading of automobile parts or automobiles?

Mr. Drury: Unfortunately, Mr. Chairman, I do not have any figures, very precise figures here. But I can say that about 50,000 new jobs in the automobile industry were created. I am proud of that achievement.

Exports increased by approximately 400 per cent above the level of 1964, and there has been an increase in production and this, of course, depends a bit on the increase in the Canadian market as well as the outside market, the foreign market. I should perhaps limit myself to the figures in export increases that is, 400 per cent, and the new jobs, approximately 50,000.

I am sure that the federal treasury is decidedly much richer because of the agreement although we lose \$50 million in customs duty.

[English]

Mr. Gilbert: Mr. Minister, it would be of interest, when you conclude the new agreement if you would bring it forward so that we can study the details and the effects of it.

The Chairman: If I am not mistaken, Mr. Minister, actually the present agreement does not have a fixed expiry date; it goes on indefinitely subject to the right of either side to cancel it at one year's notice. The discussions going on now are a review of its effects, which review was provided for in the agreement itself. Many articles on the pact read as if it were going to terminate some time this year. This is not actually the form in which the agreement was written.

Mr. Hales: I do not think we should close the books at this particular moment. I would like to ask the Minister about the figures of 40,000 or 50,000 new jobs he speaks of. Are those net figures, taking into consideration the people that were laid off and lost jobs through smaller plants being closed down?

Mr. Drury: This is net increase in employment.

Mr. Hales: Then you gave us the export figures but you did not give us the increase in the import figures.

• 1745

Mr. Drury: No. There has been an increase in the import figures. I will be glad to give them to you, Mr. Hale.

Mr. Hale: Just so that we have the records straight.

Mr. Drury: I think it is something of the order of 132 per cent.

Mr. Hale: When you see the net picture on exports and imports it is a more realistic answer.

Mr. Drury: I was asked to speak about what Mr. Clermont quite properly called the "actif".

Mr. Clermont: But usually we hear only the ...

Mr. Drury: "Passif".

[Translation]

The Chairman: I think that on this optimistic note, I should say that the sitting is adjourned.

APPENDIX AA

DEPARTMENT OF MANPOWER AND
IMMIGRATION
CANADA

Herb Gray, Esq., M.P.,
House of Commons,
Ottawa 4, Ontario.

Ottawa 2, February 2, 1968.

Dear Mr. Gray:

During my testimony on the manpower portion of the Prime Minister's announcement of policy concerning the Kennedy Round tariff adjustments you asked, and I undertook, that we would check to ascertain whether the American legislation contained a provision for advance notice of layoffs to government or to the workers.

We have reviewed the relevant legislation—The Trade Expansion Act of 1962 and The Automotive Products Trade Act of 1965—and can now confirm that no such provision exists.

The only section of the legislation which could conceivably be used in that manner is Section 311 of the Trade Expansion Act. It provides that "no adjustment assistance shall be provided to a firm... until its adjustment proposal shall have been certified by the Secretary of Commerce: (1) to be reasonably calculated materially to contribute to the economic adjustment of the firm; (2) to give adequate consideration to the interests of the workers of such firms adversely affected by action taken in carrying out trade agreements; and (3) to demonstrate that the firm will make all reasonable efforts to use its own resources for economic development."

Yours sincerely,

Duncan R. Campbell,
Acting Director,
Planning and Evaluation
Branch,
Program Development
Service.

APPENDIX BB

TELEGRAM

Feb. 5, 1968 7.21 p.m.

HERBERT GRAY ESQ., M.P.
CHAIRMAN,

STANDING COMMITTEE ON FINANCE
TRADE AND ECONOMIC AFFAIRS
HOUSE OF COMMONS
OTTAWA, ONT.

The twenty-three members of Canadian Machine Tool Distributors Association across Canada import approximately eighty percent of all metalworking machine tools, combined total value \$81 million in 1966. Our segment of the machinery industry is in complete agreement with the government's legislation on tariff under the Kennedy Round negotiations.

We issued press release mid-December last year reading as follows:

"Introduction to Parliament of legislation pertaining to the new tariff on machinery following the Kennedy Round negotiations is welcomed by members of the Canadian Machine Tool Distributors Association. Our organization is concerned primarily with metal-working machine tools which are better described as the "master tools of industry", and which is the basic equipment used by secondary industry in producing their wide variety of products defined under the broad heading of "machinery".

"In the recent past, in many instances a manufacturer has been obliged to raise an amount equal to one-third of the price of the

machinery needed to pay for duty and taxes. The aim of the government—the three departments involved being the Department of Finance, Department of Industry and Department of National Revenue—is to make Canada more competitive in the domestic and export market. This means lowering of prices for consumers and exporters. Under the new legislation for producers of machinery who are facing "competition from abroad, 15 per cent MFN or 2½ per cent B.P. tariff protection is maintained.

"However, for machinery of a type not available from Canadian sources, remission of duty may be granted which permits virtual duty free entry on this class of equipment. A high percentage of the metalworking machine tools used by Canadian industry fall into this category.

"Complete facilities will be ready January 1st, 1968 for granting certificates for remission of duty for importers of machinery of a type not available in Canada. It is expected that there will be no undue delay in obtaining permission to import equipment without payment of duty or in obtaining a refund if duty has been paid.

"It is our Association's firm belief that this is an important step in assisting all phases of primary and secondary industry across our country."

(signed)

CANADIAN MACHINE TOOL
DISTRIBUTORS ASSOCIATION
55 YORK STREET, SUITE 512,
TORONTO 1, ONTARIO.

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1967-68

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

THURSDAY, FEBRUARY 8, 1968

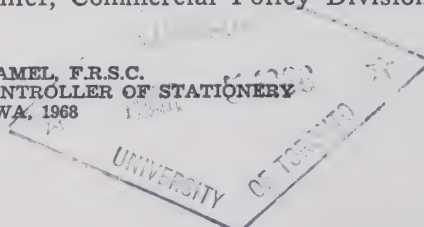
RESPECTING

Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

WITNESSES:

From the Department of Finance: Dr. C. A. Annis, Director of Tariffs.
From the Department of Trade and Commerce: Mr. T. M. Burns,
Director, Section II, Trade Relations. *From the Department of In-*
dustry: Mr. L. F. Drahotsky, Chief, Commercial Policy Division.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968



STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hales,	Mackasey,
Beaulieu,	Hees,	McLean (<i>Charlotte</i>),
Cameron (<i>Nanaimo-</i>	Irvine,	Monteith,
<i>Cowichan-The Islands</i>),	Laflamme,	More (<i>Regina City</i>),
Cantin,	Latulippe,	Noël,
Comtois,	Lind,	Thompson,
Flemming,	Macdonald (<i>Rosedale</i>),	Wahn.
Gilbert,		

Dorothy F. Ballantine,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, February 8, 1968.

(33)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.40 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cantin, Clermont, Comtois, Flemming, Gilbert, Gray, Hales, Hees, Latulippe, Mackasey, Monteith, Noël—(12).

In attendance: Messrs. C. A. Annis, Director of Tariffs, Department of Finance; T. M. Burns, Director, Section II, Office of Trade Relations, Department of Trade and Commerce; Mr. L. F. Drahotsky, Chief, Commercial Policy Division, Department of Industry.

The Committee resumed consideration of the subject-matter of the proposed Customs Tariff resolution.

Messrs. Annis, Burns and Drahotsky were questioned.

The questioning having been concluded, the Chairman thanked the officials for their assistance to the Committee and they were permitted to withdraw.

At 12.45 p.m. the Committee adjourned to 11.00 a.m., Tuesday, February 13, 1968, at which time the Committee will sit *in camera*.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, February 8, 1968.

• 1142

The Chairman: Gentlemen, I think we are in a position to begin our meeting, unofficially for the moment.

The main item on our agenda is to complete our report to the House. We have finished hearing all the witnesses those who appeared in an official capacity and those from the public—and have had some rather detailed consideration of the subject matter of the tariff resolution.

Before we begin considering the text of our final report—I might say we are now in a position to operate officially—you may recall that a few days ago Mr. Monteith asked for some information on the impact of the tariff changes on the furniture industry. We agreed to suspend discussion on that particular item in the tariff because Mr. Monteith could not be present at the time the item came up. I therefore think we should take a few minutes today to ask Dr. Annis and Mr. Burns particularly if they would summarize for us the impact of these tariff changes on the furniture industry, both on the import and export side.

Dr. C. A. Annis (Director, Economic Affairs, Industry Tariffs and Trade, Department of Finance): Under both the Kennedy Round Agreement and the resolution before the Committee the rate of duty on furniture would be reduced from a present level of 25 per cent to either 20 per cent or 17½ per cent, depending on the type of furniture. In either case the reduction will be staged equally over five steps.

With regard to the most important types of furniture, those made of wood and any other material other than furniture in chief value of metal, the reduction will be from 25 per cent to 20 per cent over four annual steps of one percentage point each.

• 1145

In respect of furniture which is in chief value of metal—this relates primarily to cer-

tain office or garden furniture and is a less important part of the total than the wooden furniture—the reduction is from 25 per cent to 17½ per cent, again over a period of five annual steps of 1½ percentage points each.

With regard to the volume of trade affected, on the basis of the calendar year 1966, total imports of all furniture—the two groups together—were not quite \$24 million, of which \$18.7 million was from the United States. If the Committee is interested in a breakdown as between metal and other furniture, I think I can supply some figures which do not correspond exactly to that breakdown, but they segregate wooden and other furniture.

The Chairman: Would you want to have this breakdown?

Mr. Monteith: Not at this moment, necessarily. Perhaps later, but I doubt it.

Mr. Mackasey: Do you have the figures for wooden furniture? I am thinking of those in the low cost labour area.

The Chairman: Do you mean imports, Mr. Mackasey?

Mr. Mackasey: Yes.

Dr. Annis: The imports of furniture substantially of wood in 1966 were just over \$13 million. The imports of furniture and fixtures of iron or steel were not quite \$5 million.

Mr. Mackasey: Do you have the \$13 million broken down?

Dr. Annis: The imports of all furniture, other than wood, were \$9.8 million. I suppose the two basic figures that one should look at there are first furniture substantially of wood, which is just over \$13 million, and furniture other than of wood, which includes the metal but it would also include plastic or upholstered furniture where the upholstery is the main component of the value, which is \$9.8 million.

Mr. Monteith: Can you give us the exports?

The Chairman: I think Mr. Burns will want to handle that one.

Mr. Monteith: Do you have the figures for 1966, Mr. Burns?

Mr. D. H. Burns (Acting Chief, Commodity Arrangements, Department of Trade and Commerce): If I may, Mr. Chairman, I would first of all like to provide the exports to the United States, and then as the United States market is by far the greatest, we can look at the total figures. The figures are United States import figures and they are in United States dollars because they are more specific to the tariff items that are concerned in the United States.

Wooden furniture other than chairs, United States imports in Canada in 1966 were \$2.3 million; chairs were \$172,000; parts of wooden furniture were \$525,000 and metal furniture was slightly over \$1 million.

There is a classification in the Canadian exports statistics known as "furniture and fixtures", which is a broader classification than we have been talking about, and under that classification exports in 1966 were \$7.4 million.

• 1150

[Translation]

Mr. Noël: Would it be possible to get the precise figures up to 1966 as regards importations since the devaluation of the dollar?

[English]

The Chairman: Since 1962?

Mr. Noël: Well, yes—in round figures.

The Chairman: Is it possible to have some figure on imports of furniture as mentioned by Mr. Noël

Mr. Noël: Wooden furniture; just wooden furniture.

The Chairman: Mr. Drahotsky?

Mr. A. H. Drahotsky (Chief, Commercial Policy Division, Department of Industry): I could provide figures on furniture and fixtures that include all household furniture, and then other furniture and fixtures. This is the DBS classification for which I could provide figures from 1963 to 1966.

The Chairman: Perhaps you could provide these figures. Would you want them at this time, Mr. Noël?

Mr. Noël: No. What do you include in household furniture; does that take in white goods.

Dr. Annis: Not the white goods.

Mr. Noël: Just furniture, metal and plastic.

Dr. Annis: But furniture is defined fairly widely and would include some borderline items. Would kitchen cabinets be a suitable example of a borderline item if it were produced by a manufacturer of furniture?

Mr. Noël: That would suit me. I just want to have an idea.

Mr. Drahotsky: I could name some of the items that are included in the category of household furniture.

Mr. Noël: Yes.

Mr. Drahotsky: Included are chairs, bookcases, cabinets, coffee tables, dressing tables, porch furniture, juvenile furniture, smoking stands, tea wagons, upholstered furniture, irrespective of material.

Mr. Noël: That is perfect. If you have the figures since 1962 I will be perfectly satisfied. Round figures will do; I just want to have an idea.

Mr. Drahotsky: Speaking, then, of the category which is described as furniture and fixtures, the 1963 imports were valued at \$22.3 million; in 1964, \$24 million; in 1965, \$27 million and in 1966, \$28.6 million. There has been a steady increase in imports from \$22.3 million in 1963 to \$28.6 million in 1966, but due to the growth in the total Canadian market the imports now supply a smaller percentage of the total than they did in 1963. In 1963 imports accounted for 5 per cent of the Canadian market; in 1966 they accounted for 4.7 per cent of the Canadian market.

The Chairman: I think Dr. Annis wants to say something at this point.

Dr. Annis: The point I would like to add, Mr. Chairman, is that you will note the figures which Mr. Drahotsky just gave are larger than the figure I gave earlier for the imports of furniture. The figure I gave was that relating specifically and only to the double tariff items 51901 and 51902-1. I beg your pardon, the first number that I just cited was 51901-1. That is the one particular category—you might say furniture—narrowly defined. The reason the figure I gave is lower

is that some of the goods to which Mr. Drahtsky has referred would be included in other tariff items including those, the two on page 100 of the Resolutions appear immediately above.

• 1155

Mr. Flemming: Would they be under the same category as being mostly of wood? Would they come under that description?

Dr. Annis: Some of them would. For example, the two items that I referred to immediately above the one for which I had given statistics relate respectively to billiard tables and bagatelle and other game tables or boards. Then there are some other items which would include products made largely by the furniture industry.

Mr. Flemming: Mr. Chairman, I would like to ask Dr. Annis whether his item of \$13 million of furniture importations mostly of wood are very largely from the United States.

Dr. Annis: Yes, sir.

The Chairman: Before returning the floor to Mr. Monteith, I wonder whether we have as yet had Mr. Burns give us a picture of the concessions granted to us by trading partners, many in the actual furniture field?

Mr. Burns: Mr. Chairman, I have some details of the American tariff concessions which, as I think I mentioned earlier, are the most important so far as being of particular interest at the moment. There are a number of United States tariff items that are applicable. I think it is true that they made 50 per cent cuts across the board in this sector.

In wood furniture other than chairs the previous rate was 10.5 per cent and that is being reduced to 5 per cent. There was a separate item on chairs of wood which was 17 per cent and that is going to 8.5 per cent. The same change applies to another tariff item covering parts of wooden furniture; in other words, from 17 per cent to 8.5 per cent. On metal furniture the reduction is from 20 per cent to 10 per cent.

There is another item in the United States tariff I think is relevant and that is furniture in parts of textile materials except cotton and this applies, I think, to upholstered furniture. The rate of duty prior to the Kennedy Round in the United States was 35 per cent and that is being reduced to 17.5 per cent.

There are others as well, Mr. Chairman, furniture mainly of rubber or plastics where the rate is going from 30 per cent to 15 per

cent or from 12.5 per cent to 6 per cent depending on the kinds of materials, and so on, but the ones I have mentioned specially are the more important of the group.

Mr. Monteith: Did you receive any representations from the furniture industry as a whole prior to the Kennedy Round beginning?

Dr. Annis: Yes, we did. There was a brief submitted to the Canadian Tariffs and Trade Committee on behalf of the industry as a whole.

Mr. Monteith: And have you had any representations since the completion of the Round? In other words, has any discontent been expressed?

Dr. Annis: I do not recall any expressed on behalf of the industry collectively, but before being too sure about this I would want to check back because I do recall something being received in the Department of Finance which I think could be interpreted as an expression of concern on behalf of at least one or two firms.

Mr. Monteith: But you do not recall any association expression of concern, particularly?

Dr. Annis: No, sir, but I would not say that there was not. I have a rather vague recollection of one piece of correspondence but I cannot recall whether it was signed on behalf of a particular firm or the association.

The Chairman: Perhaps you could inform Mr. Monteith direct when you check.

Dr. Annis: I would be glad to do that, sir.

The Chairman: Mr. Mackasey, do you have a question?

Mr. Mackasey: Not really. I wanted to know, leading out of Mr. Monteith's question, whether there had been any representations from the industry in general?

• 1200

Mr. Chairman, my conception of the furniture industry in Canada is that traditionally, it is composed of small, almost family units that are not conducive to mass-production. Will these changes work to the immediate detriment of these firms or to their advantage? Is the furniture industry in general so structured that it can take advantage of these tariff cuts?

The Chairman: Perhaps Mr. Drahotsky or Mr. Burns is in a better position to comment on that.

Mr. Burns: Mr. Chairman, I might make a couple of general comments on what Mr. Mackasey has asked.

The first one is that Canadian manufacturers of wooden furniture have been making increasing sales in the United States market. They are small, compared with our imports of wooden furniture, but in fact, a number of Canadian firms have been quite successful in marketing their products in regional markets in the United States.

Secondly, the reduction in the item covering parts of wooden furniture may have certain effects on the production costs of Canadian producers, in the sense that, as I understand it, there are a fair number of standardized parts for wooden furniture, and the ability to make longer runs on parts combining both the parts for their own use and for export may create some element of increased opportunity for Canadian firms.

If I just may mention the metal furniture industry, I understand that a number of firms in that industry in Canada, particularly through advanced design and so on, have been making useful strides in selling in the United States market.

Mr. Monteith: On that last subject, Mr. Burns, there are some furniture firms which bring in the mechanism for making a chesterfield into a bed, and that sort of thing. Some of these are brought in and the building and the upholstering of the chesterfield bed is completed in Canada. However, I take it that you were referring to those particular types of furniture which, because of the lower tariff on the incoming parts, could possibly be of assistance to the Canadian manufacturer?

Mr. Burns: Mr. Chairman, I was also trying to say that the increased ability to compete in the United States' market for parts of wooden furniture will give some furniture firms the opportunity to produce parts, not only for their own production but for export as parts to the United States. This will give them longer runs, which will presumably reduce production costs.

Mr. Monteith: Are there any supplementaries on this aspect, Mr. Chairman? If not, I just have one further question which is really disassociated.

The Chairman: One or two others have questions on the furniture industry.

Mr. Monteith, you may proceed.

Mr. Monteith: This may not actually be a fair question, and if the officials do not wish to answer it I will understand. I recall that some time after the auto pact came into being there were rumours of some preliminary discussions on possibly the furniture business being a factor and of an understanding being entered into on furniture. I will put the question very bluntly and then you can determine whether it is in order, Mr. Chairman.

Have there been any negotiations with the United States on a free-trade pact such as there is in the auto agreement?

• 1205

The Chairman: Mr. Monteith, as you yourself suggested, you may be putting these gentlemen in a difficult position. Had an official statement been made on behalf of the government, or on behalf of the department as an emanation of the government, they could bring it to our attention. In the absence of that, perhaps you should reserve your question.

Mr. Monteith: I tried to get the answer from the Minister on one occasion, and he would not say either yes or no.

Mr. Hales: Mr. Drury made a statement on that yesterday afternoon.

Mr. Monteith: Did he?

Mr. Gilbert: Yes.

The Chairman: Perhaps we should refresh our memories on the position he took.

Mr. Gilbert: He said that no action had been taken by the government on other products to which to apply the formula of the Canadian-United States auto pact; particularly because of its being an election year in the United States and the attitude of Congress on the Canadian-United States auto pact.

Mr. Mackasey: I am glad he said it was an election year in the United States and not in Canada.

The Chairman: Mr. Hales wished to add something on this.

Mr. Hales: No; Mr. Gilbert completed the statement.

The Chairman: The various departments have been taken off the hook on this one.

Mr. Monteith, do you have further questions?

Mr. Monteith: I do not think so. Thank you, Mr. Chairman.

The Chairman: Mr. Noël and Mr. Mackasey have some questions.

[Translation]

Mr. Noël: Mr. Chairman, I noticed earlier from the figures we were given, that, as far as percentage is concerned, from 1963 to 1966 imports of American furniture had dropped from 5 per cent to 4.7 per cent whereas in absolute figures an increase in importations is noted.

I am a little surprised to see that the devaluation of the dollar in relation to the American dollar, that is from 100 to 92½, has not awarded better protection to Canadian industry. It would interest me to know through which ports of entry imports arrive in Canada.

The Chairman: You mean by what city, by what town?

Mr. Noël: I should like to know if the imports arrived from eastern ports, whether the Maritimes or Ontario or Quebec, or if they came through the Western provinces, for in that case there is a question of freight rates to be taken into account. We notice that furniture manufacturers are found mostly in Ontario, in Western Ontario, in Mr. Monteith's county.

Many of them are also found in the Eastern Townships of the Province of Quebec and also in Montreal.

• 1210

I would like to know, if possible, whether imports come through Canada's western ports of entry, or the Middle West, or if they come through ports of entry in the provinces of Ontario and Quebec. This would tell me whether it is the quality or the design of the furniture which brings about increased imports. Then perhaps we would be required to stimulate our furniture makers into being more creative.

The Chairman: I think the answer to your question would pertain more to the Department of National Revenue, which is not represented here today. However, perhaps Mr. Drahotsky, who is the Chief, Commercial Policy Division, Department of Industry,

could give us some information concerning this.

Mr. Drahotsky: Mr. Chairman, I would like to answer that question. Statistics indicating the distribution of imports through ports of entry are available at the Federal Bureau of Statistics. If the Committee would like to have them they could be produced.

The Chairman: Perhaps you could send them to Mr. Noël and then our Clerk could distribute them to the other members of our Committee, since this is an interesting question. Does this meet with your approval, Mr. Noël?

Mr. Noël: That answers my question, thank you.

[English]

The Chairman: Are there further questions on the furniture aspect?

Mr. Mackasey: Mr. Chairman, there was mention of the fact that we are beginning to export more furniture to the United States. Does this apply more to metal furniture than to wooden furniture?

Mr. Burns: In terms of the actual volume of trade moving, wooden furniture is more prominent in our exports to the United States than metal furniture so far.

Mr. Monteith: Mr. Chairman, may I ask a supplementary? You mentioned earlier that imports have been increasing but that on a percentage basis total consumption has gone down. We have the export figure for 1966. Have those exports been increasing over the years since 1962?

Mr. Burns: Mr. Chairman, I do not have figures that correspond directly with the figures I gave earlier in relation to United States imports in 1966, but in terms of the Canadian export figures in this rather broad category of furniture and fixtures, our exports have increased from a level of \$3.8 million in 1963 to a level of \$7.4 million in 1966.

Mr. Monteith: And you have no idea of a comparable percentage as far as their consumption was concerned?

Mr. Burns: I would have thought it was an extraordinarily small percentage.

Mr. Mackasey: Mr. Chairman, since we have pretty well established that the increase

in exports is in wooden furniture, would you care to state whether in the research done by the Department of Industry that increase in exportation of wooden furniture is based on the price factor or on uniqueness of design?

Mr. Burns: Mr. Chairman, subject to what Mr. Drahotsky may have to say on this, I am sorry that we did not bring an expert on this product area with us today. However, it is my understanding, as a layman, that in one or two important cases of Canadian exporters to the United States, the penetration of the United States market has been accomplished because of design factors rather than price factors.

Mr. Mackasey: This of course, leads me to my point, that while the cut in tariffs may be very important it seems their importance applies mostly to those firms that are prepared for increased productivity or longer runs. Traditionally, wooden furniture factories in Canada have always been a family unit. I think our main asset in penetrating the United States market could be uniqueness in the design of our products. We all realize the reputation that Danish furniture has built up. I am just wondering what the Department of Industry is doing in this field. Perhaps we are putting too much emphasis on reduction of tariffs and increasing the potential of longer runs and possibly the Department of Industry is not helping the small wooden furniture manufacturer in an area where he can make real progress, individual creativity of design.

Mr. Drahotsky: Mr. Chairman, the Department of Industry has a very active design program of which a large portion is devoted to promoting improvement in the Canadian design, particularly in the furniture industry. There is also under consideration a modernization program for the furniture industry, but I cannot say at this time what stage this program has reached. Our Wood Products Branch is working on it in close co-operation with the industry and I could obtain further details from this Branch.

The Chairman: Perhaps you could provide those details directly to Mr. Mackasey.

Mr. Mackasey: Mr. Chairman, I know of the program. I just wanted the public to know that the Department of Industry has done a commendable job in increasing our exports by emphasizing uniquely Canadian design. This is the point I would like to make.

• 1215

Mr. Monteith: As an aside, I think it might be pointed out that The Design Centre originally was set up under the Department of Trade and Commerce and it has since been transferred to the Department of Industry.

Mr. Mackasey: I am not concerned about any program that was instituted under MacKenzie King, I just want to know how well it is functioning in 1968.

The Chairman: I think aside from the question of administrative responsibility for the program is the fact it has been expanded considerably in recent years and this gives the Department of Trade and Commerce additional selling points in its active efforts to promote the sale of Canadian furniture on the foreign market, which I am sure it is doing.

Mr. Gilbert: I have three short questions, Mr. Chairman. Are the American tariff concessions being staged over a five-year period similar to the Canadian tariff concessions?

Mr. Burns: Yes.

Mr. Gilbert: And am I right in assuming that the weight of exports is to the United States, in other words that we export very little to Great Britain and European countries.

Mr. Burns: Mr. Chairman, I would be glad to supply a detailed breakdown of our export figures. The United States market is certainly our most important market but I would expect that we would find that exports to various sections of the Caribbean would be of some significance.

Mr. Gilbert: Have you any figures on imports from Scandinavian countries? Scandinavian furniture seems to be making quite an impact on the market.

Dr. Annis: The dollar values of imports of furniture—and this includes mostly wooden, metal and other materials—in 1966 were as follow: Denmark \$1,503,000, EEC, \$728,000, the United Kingdom \$579,000, Japan, \$292,000, and then there is a miscellaneous category for all others. Unfortunately I do not have a figure for Sweden here. Apparently it must have been smaller than these others or it would have been separately enumerated. If you wait a moment I think we also can get a figure for Sweden.

The Chairman: Of course Scandinavian design has also been picked up by our own Canadian manufacturers and it may well be that a lot of the furniture that was Scandinavian is now actually Canadian manufactured.

Mr. Gilbert: Mr. Chairman, this could very well be the case.

The Chairman: It may be that the impact on our market from imports is not as great as one might think.

Mr. Gilbert: It just indicates what great designers and planners those Swedish people are.

The Chairman: I wonder if it is because of the concentration of Swedish industry in a few private hands—I am thinking of the Wallenberg family. I do not know if we would want such a situation here. We will have to discuss that at another time.

Mr. Hales, perhaps you could ask your questions while the officials are checking the figures?

Mr. Hales: Well, I have a different line of questioning. I do not want to disrupt the line of thought at the moment.

The Chairman: Mr. Drahotsky, have you the figures now for Sweden?

Mr. Drahotsky: Yes, Mr. Chairman. Imports from Sweden seem to be largely wooden household furniture, not upholstered, and in 1966 these imports accounted for a dollar value of \$157,000 out of \$12.6 million of imports in this category.

Mr. Gilbert: It just indicates how these Canadian manufacturers are stealing Scandinavian designs.

The Chairman: So sometimes when we visit friends and they seem to be boasting about their Scandinavian furniture possibly it may be the product of Mr. Monteith's area or Mr. Hales area, and may be Mr. Latulippe also has a personal link with furniture manufacturing.

Mr. Hales: We do not steal anything in our area.

• 1220

The Chairman: Mr. Hales, I believe you have a question.

Mr. Hales: Mr. Chairman, while the officials are here I would like to take advantage of their presence and ask some rather personal questions because they affect my area. I have three products in mind, namely farm milk coolers, home freezers and textiles.

I would like to know that changes have been made concerning the importation of American farm milk coolers. Prior to the Kennedy Round these were imported to Canada free of duty because they were looked upon as an agricultural implement or product, as I understand it. Has been any change made on this?

Dr. Annis: No, sir, there has been no change on that product.

Mr. Hales: What is the American duty on Canadian made farm milk coolers going into the United States?

The Chairman: Mr. Burns, will you be able to extract that on short notice?

Mr. Burns: Mr. Chairman, as Mr. Hales knows, we have been aware that there is a discrepancy in the tariff treatment between Canada and the United States on this product. I am not immediately able to identify the tariff item under which this product is presently dutiable on import into the United States, but I think I can say whatever rate was applied was reduced by 50 per cent in the Kennedy Round. I will identify the exact item to Mr. Hales at a later point.

Mr. Hales: I see. So we have some advantage there. It will be approximately half of what it was before?

Mr. Burns: That is right.

Mr. Hales: Why would the negotiators not take this discrepancy into consideration? Why should we in Canada allow American milk coolers to come in duty free?

Mr. Burns: Mr. Chairman, may I make a comment or two about this question? It has been clear that there is not complete reciprocity between Canada and the United States in the general area of agricultural machinery and equipment. There is a very broad range where in fact there is reciprocity, but on the periphery there are a number of products which are presently dutiable on entry into the United States and which, of course, have been free of duty on entry into Canada. This is a subject which we have discussed and are continuing to discuss with the United States

to see if ways can be found to establish precise reciprocity. Certainly the product, farm milk cooler, is one of the priority items in these efforts to achieve a reciprocal arrangement with the United States.

Mr. Hales: Could I ask if discussions were held with the Americans at the Kennedy Round on this very unfair situation?

Mr. Burns: Mr. Chairman, certainly this question was raised with the United States during the Kennedy Round discussions. The problem in dealing with it in that context was, except for items where the present rate of duty in the United States is 5 per cent or less, the United States did not have authority to eliminate tariffs. Its authority was restricted to 50 per cent reductions in their current tariffs, and we made it a matter of priority to ensure that for the particular tariff items under which farm milk coolers and a number of other Canadian agricultural products are presently dutiable we would at least get the 50 per cent cut.

The Chairman: Which was all the American negotiators had the authority to make at that time.

Mr. Burns: That is right, Mr. Chairman.

• 1225

Mr. Hales: I think I have made my point that a very unfair situation exists for the Canadian manufacturers of farm milk coolers, of which there are three very large ones in Canada. They are up against free importation from the United States. This is most unfair to them, and while we are trying to correct this situation these poor firms are undergoing a real financial hardship. I hope I have made my point clear to the Committee and to the officials that although it may seem small in some respects it certainly is not a small problem with these manufacturers and they are quite concerned about it. When they export to the United States they are faced with a tariff—granted it is half of what it was, which is some help—but in the meantime American farm milk coolers flood our country and they are up against a real hardship.

Mr. Monteith: It has only been half corrected.

Mr. Hales: Yes, half corrected, and only on the export side of the problem.

The Chairman: Could I ask a question on this point, Mr. Hales? Am I right or wrong in saying that the Royal Commission on Farm Machinery are presently holding hearings? Do these hearings deal with the whole question or on implements of interest only to western agriculture?

Mr. Hales: The problem is that farm milk coolers should never have been classed as agricultural implements.

The Chairman: I do not quarrel with the point you made. I just wonder if this is part of the terms of reference of the particular royal commission. I do not say that is the answer to the point, I just wondered about it.

Mr. Hales: I think that is a good suggestion, Mr. Chairman. I might drop a letter to the chairman of that task force and bring it to their attention.

My other question concerned home freezers. What transpired in that connection during the Kennedy Round of tariffs?

The Chairman: Dr. Annis, would you like to start?

Dr. Annis: A home freezer for Canadian purposes would be classified as a refrigerator, would it not?

Mr. Hales: Yes, I think so.

Dr. Annis: On refrigerators we have agreed to make a reduction of 2½ percentage points staged over five annual instalments.

Mr. Monteith: From what to what?

Dr. Annis: From 22½ to 20 per cent. I will check this, as I spoke from memory.

Mr. Hales: This is on imports coming into Canada?

Dr. Annis: Yes, sir.

The Chairman: Mr. Burns, are you in a position to tell us something about export concessions, if any?

Mr. Burns: Not for a moment.

The Chairman: We will give you a chance to go through your documents.

While this is being checked, I have a small procedural matter to bring to the attention of the Committee. We have received a letter from John D. Richard, who appeared with Mr. Gordon Hooper several days ago. This letter

has been circulated. I do not know if copies have reached the members as yet, and therefore I will read it. It is addressed to myself as Chairman. It says:

For the record, Mr. Gordon Hooper has asked me to advise you and the members of the Committee that he has not appeared before the Tariff Board in any appeal since the month of October, 1966. Following his last appearance before the Tariff Board, Mr. Hooper informed interested persons that he did not propose to appear before the Tariff Board in any further appeals. Mr. Hooper, who is now 70 years of age, remains a Customs Consultant but no longer appears before the Tariff Board on appeals to that Board.

Yours very truly,
John D. Richard.

As I said the letter is signed by John D. Richard, the barrister who appeared before the Committee with Mr. Hooper. I presume it will be agreeable to the Committee to include this letter in our record.

Mr. Hales: It would appear for general purposes that the manufacturer of home freezers in Canada subjected to a 2½ per cent reduction on imports.

The Chairman: Staged over several years.

Mr. Hales: Yes, over a five year period. Were many concessions granted on the export of home freezers?

Mr. Burns: Mr. Chairman, I would like to read a United States tariff item which I think is probably the item concerned. It reads:

Refrigerators and refrigerating equipment, whether or not electric, and parts thereof.

The rate of duty before the Kennedy Round was 10½ per cent. The rate when the concessions are finally in effect will be 5 per cent. Exports from Canada to the United States in 1966 under the 10½ per cent were \$3.7 million.

• 1230

Mr. Hales: Thank you, Mr. Burns. He gained 5½ per cent advantage on his exports. I have no further questions, Mr. Chairman.

Dr. Annis: May now I return? I should not have answered that question from mem-

ory. My memory fooled me in that case. I was thinking about another item. Actually, in the case of the home refrigerator the Canadian rate of duty is already 20 per cent and there was no change.

Mr. Hales: No change.

The Chairman: How did you get away with that?

Dr. Annis: The rates that were above 20 per cent were brought down to 20 per cent in this field. This was an area in which we drew the line at that point and we were successful in maintaining it.

The Chairman: It would appear that you got a concession the other way.

Mr. Hales: This would not vary? This is from all countries. Suppose they came in from Europe?

Dr. Annis: Yes, sir.

Mr. Hales: So the manufacturer of home freezers came out on top in the Kennedy Round tariffs.

Dr. Annis: Yes, sir.

Mr. Hales: All right, that is good. In the textile field, what rate do finished shirts coming into Canada from Japan pay? I know the cloth factor might come in here.

Dr. Annis: Finished shirts coming into Canada from Japan or any other country entitled to most MFN treatment would be subject to a tariff reduction. I should draw the distinction here that if they are wholly of cotton the rate would be reduced. Possibly I should look this up rather than answer from memory. They would be classified under tariff item 52305-1 on which the present MFN rate of duty is 25 per cent, which is being reduced to 22½ per cent in five annual instalments of ½ percentage point each.

Mr. Hales: Is there much change if it is one of the synthetic products?

Dr. Annis: In that case the present rate on the finished shirt, which would be classified under another tariff item relating to manufactures or wearing apparel of man-made fibres, would be 27½ per cent. This would again be reduced to 25 per cent in annual instalments of a ½ percentage point.

Mr. Hales: What about the finished shirt which is made of the same materials coming in from Japan?

Dr. Annis: I am sorry, sir, I thought we were talking about the product.

Mr. Hales: I am sorry, I mean the cloth of which the shirts are made.

Dr. Annis: All right.

Mr. Hales: I think you will understand what I am getting at when we get these figures.

Dr. Annis: In the case of cloth—first we revert back to cotton—there are two tariff items which might be involved, but the rates of duty are the same depending on whether it is bleached or coloured cotton. In each instance the present rate on the cloth would be 22½ per cent *ad valorem*, which is being reduced to 20 per cent over five steps of a ½ percentage point each.

Mr. Hales: They are both the same?

Dr. Annis: Yes, both the same in the case of white cotton cloth or coloured cotton cloth, but it is different in the case of synthetics. The rates are higher and they are being further reduced. Just a moment, I had better look this up.

Mr. Gilbert: I have a supplementary, Mr. Hales.

Mr. Hales: Yes.

Mr. Gilbert: Would these rates be subject to any voluntary agreement on import quotas with Japan?

• 1235

Dr. Annis: The rates of duty are not affected by any voluntary export controls exercised by Japan. Where voluntary export controls are exercised those relate to volumes of shipments in given periods.

Mr. Gilbert: Fine.

Mr. Hales: The point is that the spread between the tax on the cloth and the tax on the finished shirt is not broad enough to encourage the manufacturer to make shirts in Canada and employ Canadians. In other words, the manufacturer of shirts in Canada is thinking in terms of closing up his plant and buying his shirts ready-made from Japan. I was trying to get at what the thinking was

behind this so that we could give more protection to the manufacturer in the textile field in order that we would import less from Japan and employ more Canadians.

Dr. Annis: The effects of the Kennedy Round concessions in this regard are neutral in the sense that there is the same reduction on the finished shirt as on the fabric. I would say the Kennedy Round changes in a sense do not affect the competitive situation in that respect.

Mr. Hales: No.

Dr. Annis: Your question, of course, goes beyond that. You have pointed to a very real problem which exists and to which I think there are no easy answers. Imports of finished shirts from Japan and other countries have been a matter of concern to Canadian producers. Of course, looked at from the point of view of the primary textile producer, the cotton mill, imports of fabrics are also a problem. I am sure that while a greater reduction on the fabrics would have been welcomed by the shirt manufacturers, it would not have been welcomed by the manufacturers of the fabric, firms such as Dominion Textile, Wabasso, and so on. In a sense I suppose there is a conflict of interest between two Canadian groups of producers in that particular regard. As far as cottons are concerned, the concessions provided for here, these reductions of duty, do not affect that one way or the other.

If we were to go on to the matter of the synthetics, the shirts made of man-made fibres, in that case the reduction on the finished shirt is again 2½ percentage points, but in this instance, as of now the rate of duty on the fabric is a compound rate of duty that works out in *ad valorem* terms at a higher rate than on a finished shirt. It is being reduced by somewhat more than the rate on the finished shirt.

The justification that has been used in the past for the persistence of a higher rate on fabrics made of man-made fibres is that this is an area where imports, despite the rather high rate, have been very substantial. In relation to Canadian production, imports have been higher than they have been on the finished materials. On that point, at least as far as men's dress shirts are concerned, I think it would be fair to say that imports, while they have increased somewhat, still represent a rather modest proportion of the Canadian market. In saying that I would not

deny that there has been some increase, and that this increase has been of real concern to Canadian producers. I know that it has been, and they have certainly made that view known to officials and to members of the government.

Mr. Hales: Thank you. I would like to have seen a harder deal driven and more bartering done on the cloth or fabric used in shirt manufacturing and the tariff reduced to as low as possible a level so that we could have helped the textile industry, which is in very serious trouble. However, this is the picture and it is a little better than it was.

• 1240

The Chairman: Is there any further general discussion on the tariff Resolution?

Mr. Mackasey: On that particular point, are we not subject as well to pressure from Formosa or Taiwan in this area, as we now are from Japan?

Dr. Annis: Yes, sir.

Mr. Mackasey: Do you think this is growing?

Dr. Annis: Yes, sir. Imports of both fabrics and of made-up clothing articles from a number of countries, which are often referred to collectively as low-cost sources, have been increasing and these are a cause of concern. I might add that despite this increase the United States remains the single largest source of imports for most of the products concerned.

Mr. Mackasey: I have one last question. In general are our exports to Japan greater than our imports from that country?

Dr. Annis: Yes, sir, much greater. In absolute terms the growth in our exports to Japan has been fully as great as the growth in our imports from Japan over recent years. There has been growth on both sides, and our favourable balance has remained very large.

Mr. Mackasey: Thank you.

The Chairman: If there is no further general discussion on the tariff Resolution I suggest we go into an *in camera* session to consider our report. I think we should decide whether we want to have the officials remain in order to provide technical information.

I suggest, because we did not start quite as early as we usually do, that perhaps we can

at least begin consideration and possibly we will reach some degree of unanimity. Let us try to keep going for a period at least, and then we will be in a position to send this back to the House so that the business of the House may be able to proceed expeditiously. Do you want the officials to remain?

Mr. Gilbert: There is very little hope that we will finish by one o'clock. I think we should have a fresh look at it on Tuesday morning rather than break it up by continuing now until one o'clock and still not finish.

Mr. Monteith: There is another point, Mr. Chairman. I am wondering if, for instance, you have drafted any type of report yourself?

The Chairman: I have a draft report. It is just a basic document in which I did not presume...

Mr. Monteith: I quite understand. However, I wonder if you feel free to let members of the Committee have a copy as a draft. If you did this we might be able to deal with it more expeditiously on Tuesday.

The Chairman: I could circulate this but it is really just a very basic document, and it is more in the form of a series of categories and basic information. If it is the wish of the Committee to finalize this on Tuesday morning rather than of right now, we could do that.

We will now adjourn until Tuesday morning, when we will meet *in camera* to complete our report. Let us decide before we adjourn if we wish to have the officials with us to provide us with any technical information we may want.

[Translation]

Mr. Clermont: I believe that this would be preferable.

The Chairman: Yes, it is preferable.

We invite the officials who are with us now to join us and continue to assist us as they have in the past. I think before we adjourn it might be important to note for the record a word of appreciation to Dr. Annis, Mr. Burns, Mr. Drahotsky and Mr. Halvorson. These gentlemen have been most helpful to the Committee in our study of these tariff Resolutions. Perhaps we have helped to establish the utility of these types of direct exchanges between members and officials in standing committees of the House. We now stand adjourned until next Tuesday morning at 11 a.m.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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The Clerk of the House.

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1967-68

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

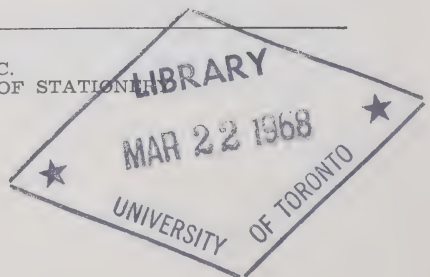
TUESDAY, FEBRUARY 13, 1968

RESPECTING

Subject-matter of the proposed Customs Tariff Resolution
(The Kennedy Round).

INCLUDING NINTH REPORT TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968



STANDING COMMITTEE ON
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<i>Cowichan-The Islands</i>),	Irvine,	McLean (<i>Charlotte</i>),
Cantin,	Laflamme,	Monteith,
Comtois,	Lambert,	More (<i>Regina City</i>),
Flemming,	Latulippe,	Noël,
Gilbert,	Lind,	Thompson,
		Wahn.

Dorothy F. Ballantine,
Clerk of the Committee.



ORDER OF REFERENCE

MONDAY, February 12, 1968.

Ordered,—That the name of Mr. Lambert be substituted for that of Mr. Beaulieu on the Standing Committee on Finance, Trade and Economic Affairs.

Attest.

ALISTAIR FRASER

The Clerk of the House of Commons.

REPORT TO THE HOUSE

FRIDAY, March 1, 1968.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

NINTH REPORT

In accordance with its Order of Reference of December 14, 1967, your Committee has considered the subject-matter of the proposed Customs Tariff resolution the texts of which were laid before the House, Monday, November 6, 1967.

Your Committee has held 22 meetings and has heard the following witnesses:

The Honourable Mitchell Sharp, Minister of Finance

The Honourable Robert Winters, Minister of Trade and Commerce

The Honourable C. M. Drury, Minister of Industry

Mr. John Munro, Parliamentary Secretary to the Minister of Manpower and Immigration.

From the Department of Finance

Mr. R. Y. Grey, Assistant Deputy Minister

Dr. C. A. Annis, Director of Tariffs

Mr. J. Loomer, Tariff Division.

From the Department of Industry

Mr. J. J. McKennirey, Director, Machinery Branch

Mr. H. H. Wright, Industrial Policy Adviser

Mr. L. F. Drahotsky, Chief, Commercial Policy Division.

From the Department of Trade and Commerce

Mr. M. Schwarzmann, Assistant Deputy Minister (Trade Policy)

Mr. T. M. Burns, Director, Section II, Office of Trade Relations

Mr. R. M. Esdale, Chief, Grain Division

Mr. A. R. A. Gherson, Chief, United States Division, Office of Trade Relations

Mr. R. M. McKay, Agriculture and Fisheries Branch.

From the Department of National Revenue

Mr. A. H. Halvorson, Customs Appraisal Division.

From the Department of Manpower and Immigration

Mr. Duncan Campbell, Acting Director, Programme Development Services.

From the Consumers' Association of Canada

Dr. H. E. English, Executive Vice-President

Miss F. Janzen, Executive Secretary.

From the Canadian Importers Association

Mr. Ernest P. Carr, President

Mr. Keith G. Dixon, General Manager

Mr. Murray E. Corlett, Q.C., Counsel.

From the Machinery and Equipment Manufacturers Association of Canada

Mr. J. P. Finnigan, President

Mr. H. J. A. Chambers, Past President

Mr. G. D. Lewis, Vice-President

On Behalf of a Number of Importers of Machines

Messrs. John Richard, Counsel and Gordon Hooper, Customs Consultant.

From the Canadian Chemical Producers Association

Dr. D. E. Jones, President

Mr. D. D. Stokes

Mr. R. B. MacPherson

Mr. K. B. Mathewson

Mr. D. S. Hart

Representing the Canadian Salt Industry

Messrs. J. H. Rowland and A. D. Huffman

From the Canadian Manufacturers Association

Mr. Carl A. Pollock

Mr. Archibald Johnston

Mr. C. F. Terrell

Mr. R. Lang

From Electrohome Limited

Mr. Carl A. Pollock, President

Mr. D. S. Sykes, Executive Vice-President

Mr. William N. Hemphill, Secretary

Briefs from the undermentioned were also filed with the Committee:

Canadian Machine Tool Distributors Association

Canadian Farm and Industrial Equipment Institute

Dominion Chartered Custom-House Brokers Association

The Committee recommends the subject-matter of the proposed Customs Tariff resolution to the House for its favourable consideration with the following comments:

The Kennedy Round negotiations would appear to provide considerable potential benefit for Canada's export trade and the Canadian economy. However, great care should be taken in the drafting of the Canadian legislation based on the new international anti-dumping code to ensure that interests of

Canadian manufacturers, workers and farmers are adequately protected. Your Committee recommends that the bill relating to this code be referred to this Committee for study in order that it may hear the views of those concerned.

While the question of non-tariff barriers was not specifically included in the Committee's Order of Reference, the matter came up from time to time in the course of the hearings. It is the view of the Committee that the Government should take cognizance of the danger that such trade barriers could possibly impede the beneficial aims of the Kennedy Round agreement. Therefore your Committee recommends that the Government should intensify its efforts to deal with existing non-tariff barriers and also be prepared to counteract any new non-tariff barriers that may be created in order to ensure that Canadian industry and agriculture are not at a competitive disadvantage.

Your Committee also recommends that the Government pay close attention to the manner of operation of the Adjustment Assistance and Machinery Programmes to ensure that their aims with respect to furthering the best interests of labour and business in Canada are in fact being met and, for this purpose, that these programmes be reviewed from time to time by this Committee.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 12 to 25 inclusive*) is tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, February 13, 1968

(34)

The Standing Committee on Finance, Trade and Economic Affairs met *in camera* at 11.07 a.m. this day.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Cantin, Clermont, Flemming, Gilbert, Gray, Hales, Hees, Irvine, Laflamme, Lambert, Macdonald (*Rosedale*), Mackasey, McLean (*Charlotte*), Monteith, More (*Regina City*), Wahn—(18).

In attendance: Messrs. C. A. Annis, Director of Tariffs, Department of Finance; T. M. Burns, Director, Section II, Office of Trade Relations, Department of Trade and Commerce; L. F. Drahotsky, Chief, Commercial Policy Division, Department of Industry; A. H. Halvorson, Customs Appraisal Division, Department of National Revenue (Customs and Excise).

The Committee had for consideration a draft Report to the House on the subject-matter of the proposed Customs Tariff resolutions.

The Committee discussed the draft report and made a number of amendments and additions. During the discussion, Messrs. Annis, Burns and Drahotsky were called upon to clarify certain technical points.

After further discussion, the draft report was approved, on division, and it was

Ordered,—That the Chairman present the report to the House. (See pages 25—4 to 25—6)

It was *agreed* to print as an appendix a telegram to the Chairman from the President of the Dominion Chartered Customs-House Brokers Association. (See *Appendix CC*).

In accordance with the decision of January 18, 1968, the following replies to members are printed as appendices;

Appendix DD: From the Department of Industry re furniture imports.

Appendix EE: From the Department of Trade and Commerce re furniture exports and farm milk coolers.

In accordance with the decision of February 1, 1968, the brief of the Canadian Farm and Industrial Equipment Institute, together with comments of Departmental officials, is included herewith as *Appendix FF*.

In accordance with the decision of February 1, 1968, information provided by Canadian Chemical Producers Association in answer to a question on exports by Canadian-owned companies is attached hereto as *Appendix GG*.

At 12.50 p.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

APPENDIX CC

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TLX WINNIPEG MAN 9 1040ACST

MR HERB GRAY CHAIRMAN.

STANDING COMMITTEE FINANCE TRADE
AND ECONOMIC AFFAIRS HOUSE OF
COMMONS OTTAWA

WE ARE DISTURBED BY NEWSPAPER
REPORTS INDICATING THAT CUSTOMS
HOUSE BROKERS HAVE CRITICIZED THE
DETAILED WORKINGS OF THE NEW
MACHINERY PROGRAM INTRODUCED
JAN 1/68 AS A RESULT OF THE KEN-
NEDY ROUND NEGOTIATIONS. AS PRESI-
DENT OF THE DOMINION CHARTERED
CUSTOM-HOUSE BROKERS ASSOCIATION
WHICH NUMBERS SOME 450 CUSTOM-
HOUSE BROKERS ACROSS CANADA, I
WOULD LIKE TO ASSURE YOUR COM-
MITTEE THAT NO STATEMENT OF
CRITICISM EMANATED FROM THIS AS-
SOCIATION. RATHER, WE HAVE BEEN
COOPERATING WITH BOTH THE

DEPARTMENT OF NATIONAL REVENUE
AND THE DEPARTMENT OF INDUSTRY
IN AN EFFORT TO EFFECT SMOOTH
IMPLEMENTATION WHICH WE FEEL IS
IN THE BEST INTERESTS OF THE
IMPORTING PUBLIC WHOM WE REPRESENT
AND THE GOVERNMENT WHOM
WE ARE LICENSED BY.

FURTHER I HAVE BEEN IN TOUCH WITH
MR HUGH THOMAS, PRESIDENT OF THE
ASSOCIATION OF INTERNATIONAL BORDER
AGENTS, WHOSE MEMBERSHIP
INCLUDES MEMBERS OF THE DOMINION
CHARTERED CUSTOM-HOUSE BROKERS
ASSOCIATION OPERATING AT BORDER
POINTS AND HE CONFIRMS AND CON-
CURS WITH THE AFOREGOING STATE-
MENT.

CHARLES R RIESS PRESIDENT DOMINION
CHARTERED CUSTOM-HOUSE BROKERS
ASSOCIATION 500-356 MAIN ST
WINNIPEG 1, MANITOBA.

APPENDIX DD

[Translation]

OTTAWA February 12, 1968.

Mr. A. Noël, M.P.,
House of Commons,
Ottawa, (Ont.)

Dear Mr. Noël:

Last Thursday you requested information
on household furniture imports, by provincial
ports of entry.

I am enclosing a table containing this information for the main items of household furniture, for the years 1964 to 1966. Unfortunately, no previous figures were available on a comparative basis.

Sincerely yours,
L. F. Drahotsky
Chief, Commercial Policy
Division
Office of the Economic Adviser.

HOUSEHOLD FURNITURE IMPORTS, BY PROVINCIAL PORTS OF ENTRY

Province	Year	Unupholstered		Upholstered	Others	Total
		Wood	Metal			
		\$	\$	\$	\$	\$
Newfoundland.....	1964	9,525	3,185	675	2,072	15,457
	1965	10,706	5,518	—	727	16,951
	1966	2,814	3,496	253	2,122	8,685
Nova Scotia.....	1964	47,031	14,659	3,153	2,631	67,474
	1965	44,381	17,978	4,446	5,804	72,609
	1966	59,422	9,377	9,490	8,095	86,384
Prince Edward Island.....	1964	2,560	3,490	940	—	6,990
	1965	—	—	—	—	—
	1966	819	—	745	—	1,564
New Brunswick.....	1964	8,712	6,791	1,695	2,002	19,200
	1965	21,319	11,072	667	2,020	35,078
	1966	15,163	7,299	237	1,316	24,015
Quebec.....	1964	3,531,307	581,465	370,523	386,488	4,869,783
	1965	4,329,577	636,938	395,100	391,487	5,753,102
	1966	4,224,981	543,899	932,167	379,907	5,540,954
Ontario.....	1964	3,937,854	941,134	464,843	612,213	5,956,044
	1965	4,743,521	1,036,454	620,662	599,839	7,000,476
	1966	5,930,428	904,283	433,047	613,073	7,881,461
Manitoba.....	1964	358,184	86,660	51,586	27,555	523,985
	1965	359,545	68,174	34,976	36,202	498,897
	1966	374,582	43,663	30,737	24,372	473,354
Saskatchewan.....	1964	57,927	24,045	12,084	6,180	100,236
	1965	57,633	11,744	13,611	3,821	86,809
	1966	32,455	8,749	17,973	6,906	66,083
Alberta.....	1964	335,944	100,895	21,107	20,606	478,552
	1965	360,307	56,673	31,278	33,273	481,531
	1966	380,636	49,899	52,948	30,937	514,420
British Columbia.....	1964	969,271	146,763	84,641	152,339	1,353,014
	1965	1,339,535	127,441	102,060	174,996	1,744,032
	1966	1,572,869	100,678	85,709	122,987	1,882,243
Yukon.....	1964	—	—	—	—	—
	1965	—	376	—	—	376
	1966	—	—	—	—	—
CANADA.....	1964	9,258,315	1,909,087	1,011,247	1,212,086	13,390,735
	1965	11,266,524	1,972,368	1,202,800	1,248,169	15,689,861
	1966	12,594,169	1,671,343	1,023,306	1,190,345	16,479,163

SOURCE: Dominion Bureau of Statistics.

APPENDIX EE

DEPARTMENT OF TRADE AND COMMERCE

Ottawa 4, February 13, 1968 1966—con.

Miss D. F. Ballantine,
Clerk of the Standing
Committee on Finance, Trade and
Economic Affairs,
House of Commons,
Ottawa, Ontario.

Dear Miss Ballantine:

At the Committee meeting on February 8th,
two questions arose on which I undertook to
supply detailed information.

Mr. Gilbert asked for information on
Canadian exports of furniture other than to
the United States. Attached are two tables
extracted from the export statistics published
by the Dominion Bureau of Statistics, show-
ing Canadian exports of a number of classes
of furniture for 1966 and for the first ten
months of 1967.

Mr. Hales enquired about United States
tariff treatment for farm milk coolers. These
products are dutiable on entry into the United
States under tariff item 661.35, "Refrigerators
and refrigerating equipment, whether or not
electric, and parts thereof", at 9 per cent ad
valorem. The pre-Kennedy Round rate of
duty for this item was 10.5 per cent, and the
final rate when the United States reductions
are completed on January 1, 1972, will be 5
per cent.

Yours sincerely,
T. M. Burns,
Director, Section II,
Office of Trade Relations.

1966

Extract from Export Statistics—
Dominion Bureau of Statistics

Furniture, Wooden, Household, Not Up-
holstered

Country	Value \$,000
United Kingdom	5
Belgium-Luxembourg	1
Germany West	1
Greece	1
Netherlands	1
Ethiopia	1
Israel	1
Republic of South Africa ...	1
Japan	1

Country	Value \$,000
Furniture, Wooden, Household, Not Up- holstered	
Australia	2
British Guiana	25
Venezuela	1
Bahamas	12
Bermuda	107
Barbados	18
Jamaica	3
Leeward and Windward Is- lands	29
Trinidad and Tobago	7
Dominican Republic	1
Netherlands Antilles	5
St. Pierre and Miquelon	22
United States	1,332
	<hr/> 1,576

Furniture, Metal, Household, Not Upholstered	
United Kingdom	4
France	2
Sweden	2
Ghana	4
Viet-Nam	11
Australia	1
British Guiana	18
Surinam	3
Bahamas	7
Bermuda	20
Barbados	13
Leeward and Windward Is- lands	16
Trinidad and Tobago	14
Netherlands Antilles	4
St. Pierre and Miquelon	9
United States	81
	<hr/> 209

Furniture, Household, Upholstered	
United Kingdom	114
Netherlands	26
Ethiopia	1
Japan	1
British Guiana	3
Bahamas	4
Bermuda	83
Barbados	6

1966—con.

Country	Value \$,000
Furniture, Wooden, Household, Upholstered	
Jamaica	3
Leeward and Windward Islands	11
Trinidad and Tobago	14
French West Indies	1
Netherlands Antilles	6
St. Pierre and Miquelon	6
United States	91
	<hr/>
	370

Furniture Frames and Household Furniture NES

British Guiana	39
Surinam	1
Bahamas	1
Bermuda	37
Barbados	5
Jamaica	5
Leeward and Windward Islands	22
Trinidad and Tobago	7
Netherlands Antilles	4
St. Pierre and Miquelon	3
United States	53
	<hr/>
	178

Office Furniture and Visible Record Equipment

United Kingdom	9
Belgium-Luxembourg	2
France	3
Germany West	3
Sweden	1
Switzerland	3
Kuwait	3
Ghana	8
Republic of South Africa	6
Tunisia	3
Ceylon	1
India	1
Indonesia	1
Japan	3
Australia	1
British Guiana	7
Argentina	1
Chile	2
Venezuela	8
Bahamas	50
Bermuda	66

1966—con.

Country	Value \$,000
Office Furniture and Visible Record Equipment	
British Honduras	1
Barbados	57
Jamaica	59
Leeward and Windward Islands	24
Trinidad and Tobago	5
Dominican Republic	1
Netherlands Antilles	1
St. Pierre and Miquelon	5
United States	1,789
	<hr/>
	2,127

Furniture and Fixtures NES

United Kingdom	76
Ireland	9
Belgium-Luxembourg	6
France	2
Germany West	11
Netherlands	13
Norway	3
Switzerland	1
Lebanon	1
Ghana	12
Republic of South Africa	16
Congo Leopoldville	28
Liberia	2
Ceylon	1
Malaysia & Singapore	1
Pakistan	1
Japan	6
Viet Nam	14
Australia	39
British Guiana	32
Argentina	1
Peru	1
Surinam	1
Venezuela	17
Bahamas	107
Bermuda	38
British Honduras	2
Barbados	73
Jamaica	88
Leeward and Windward Islands	46
Trinidad and Tobago	38
Cuba	3
French West Indies	1
Haiti, Republic of	5
Netherlands Antilles	1
Nicaragua	1

1966—con.

Country	Value \$,000
Furniture and Fixtures NES	
Puerto Rico	30
U.S. Virgin Islands	6
St. Pierre and Miquelon	12
United States	1,875
	<hr/> 2,622

1967—January to October

Extract from Export Statistics—
Dominion Bureau of StatisticsFurniture, Wooden, Household,
Not Upholstered

United Kingdom	1
France	1
Kenya	1
Japan	6
Guyana	11
Bahamas	5
Bermuda	57
Barbados	9
Jamaica	2
Leeward and Windward Islands	4
Trinidad and Tobago	1
Netherlands Antilles	2
St. Pierre and Miquelon	21
United States	1,128
	<hr/> 1,251

Furniture, Metal, Household, Not Upholstered

United Kingdom	9
France	1
Ethiopia	2
Liberia	1
Guyana	10
Surinam	1
Bahamas	5
Bermuda	24
British Honduras	2
Barbados	8
Jamaica	1
Leeward and Windward Islands	7
Trinidad and Tobago	4
Netherlands and Antilles	1
St. Pierre and Miquelon	3
United States	85
	<hr/> 164

1966—con.

Country	Value \$,000
Furniture, Household, Upholstered	
Netherlands	8
Republic of South Africa	2
Bahamas	3
Bermuda	76
Barbados	7
Jamaica	1
Leeward and Windward Islands	5
French West Indies	1
Netherlands Antilles	6
St. Pierre and Miquelon	8
United States	135
	<hr/> 252

Furniture Frames and Household Furniture
NES

Guyana	10
Ecuador	1
Surinam	2
Bahamas	1
Bermuda	20
British Honduras	2
Barbados	3
Leeward and Windward Islands	13
Haiti, Republic of	1
Netherlands Antilles	5
St. Pierre and Miquelon	6
United States	51
	<hr/> 114

Office Furniture, Wooden

United Kingdom	5
Union of Socialist Soviet Republic	1
Bahamas	12
Bermuda	14
Jamaica	2
Leeward and Windward Islands	2
Puerto Rico	7
St. Pierre and Miquelon	2
United States	1,178
	<hr/> 1,226

1966—con.

Country	Value \$,000
Office Furniture NES	
United Kingdom	19
France	1
Iraq	3
Republic of South Africa	3
Congo-Kinshasa	2
Bahamas	21
Bermuda	45
Barbados	24
Jamaica	39
Leeward and Windward Islands	11
Trinidad and Tobago	3
Cuba	1
French West Indies	1
Puerto Rico	7
St. Pierre and Miquelon	2
United States	544

726

Furniture and Fixtures NES

United Kingdom	60
Ireland	6
Belgium-Luxembourg	3
France	1
Germany West	3
Netherlands	8
Switzerland	1
Libya	2

1966—con.

Country	Value \$,000
Furniture and Fixtures NES	
Ghana	1
Republic of South Africa	3
Ceylon	3
Hong Kong	4
Pakistan	10
Japan	9
Thailand	1
Viet-Nam	11
Australia	26
Guyana	32
Surinam	3
Venezuela	9
Bahamas	70
Bermuda	33
Barbados	28
Jamaica	69
Leeward and Windward Is-	
lands	21
Trinidad and Tobago	48
Cuba	10
Dominican Republic	10
Netherlands Antilles	2
Nicaragua	4
Puerto Rico	50
U.S. Virgin Islands	2
St. Pierre and Miquelon	6
United States	1,441

1,989

APPENDIX FF

CANADIAN FARM AND INDUSTRIAL EQUIPMENT INSTITUTE

60 Adelaide Street East, Toronto 1, Ontario

CUSTOMS AND EXCISE COMMITTEE

Representations made pursuant to the invitation of the Chairman of the Standing Committee on Finance, Trade and Economic Affairs on the Kennedy Round negotiations of the General Agreement of Trade and Tariffs.

1. It is the opinion of this industry that in future negotiations of this type, a panel of advisors from industry, who are considered to be expert in this field, be made available to Government representatives before and during such negotiations. We feel that errors, which do not appear serious on the surface,

but which could be extremely serious for certain areas of Canadian Industry could be avoided.

2. It is also apparent that when Remission Programmes are considered they should be administered by the Department of National Revenue and not the Department of Industry! We believe this is obvious when it is considered how many senior Customs and Excise personnel were transferred to the Department of Industry recently in order to administer the machinery programme under Tariff Item 42700-1.

We would further submit that these Remission Programmes effect Customs and Excise

administration from the time of importation and that it is virtually impossible to eliminate any one phase effecting an importation from Customs and Excise jurisdiction, whether it be tariff classification, Refund, or Drawback procedures or Appeal Procedures.

3. In the administration of Remission of Duty on Tariff Item 42700-1, it has been ruled that there will be no Remission of Federal Sales Tax even though the 15% Customs Duty would be remitted. This appears to be a ludicrous inconsistency. If a remission is granted it indicates that the machinery is not available in Canada and in no way would cause a detrimental effect on Canadian Industry. Furthermore, we would submit that if this programme was designed to avoid penalizing importers when like goods were not available from Canadian sources, why would the 12% Federal Sales Tax not be remitted on the 15% Duty?

The only effect this policy can have is to complicate the administration of the programme far beyond the value of the revenue involved and further complicating bookkeeping procedures within industry.

4. Applications for Remission of Duty are being considered on a quantity basis. We would submit that if such machinery is not available in Canada it would be far easier to control at Customs Ports across the country if the remission was granted on a period of time basis.

For example, if an importer expected to import twenty four machines of a certain type during a twelve month period and remission was granted the permit could cover a six month period. Prior to expiry of this permit, the importer would be required to submit another application stating how many machines had been imported to date and the latest estimate of machines expected to be imported in the next twelve months. This procedure could effectively ensure that any one importer did not corner the market in the event a Canadian Source was contemplated. It would also eliminate the necessity of each Customs Port in Canada being responsible to a Central Control for reporting each importation on which a remission was granted.

5. Another regulation made in the administration of Tariff Item 42700-1 is that the Customs Duty on the first \$500.00 does not qualify for remission. This rule is causing consid-

erable problems both for importers and the administration of the programme. Again, we would submit that if a Remission is to be granted, it does not affect Canadian Industry and consequently no exception should be made in granting the remission, unless of course it is not in the "public interest".

DEPARTMENT OF FINANCE

Ottawa 4, February 12, 1968.

Miss Dorothy F. Ballantine,
Clerk of The Standing Committee on Finance,
Trade and Economic Affairs,
House of Commons,
Ottawa, Ontario.

Dear Miss Ballantine:

You asked for comments on a submission which was made to the Committee under date of January 8, 1968 by the Canadian Farm and Industrial Equipment Institute. I should like to confine my comments to their first point. It appears to me that the other points already have been dealt with either directly or indirectly in the course of the Committee's proceedings.

I question the soundness of the Institute's suggestion that in future tariff negotiations a panel of advisers from industry be made available to Government representatives before and during the negotiations. If my understanding of this proposal is correct, it would involve discarding the kind of consultative procedures which Canada used in the Kennedy Round negotiations through the Canadian Tariffs and Trade Committee, and adopting instead procedures along the lines of those which have been used by the United States. It might be thought that the latter, by giving industry representatives more of a say in the actual negotiations, would tend to produce results more acceptable to the interested parties. However, on the basis of my own observations and discussions with members of other delegations, I doubt that this works out in practice. It seems to me that improvements in Canadian methods of consulting with industry should be sought through further refinement of present procedures rather than abandoning them and adopting the U.S. system.

Yours sincerely,
C. A. Annis
Director, Tariffs

Comments from the Department of Industry on the Canadian Farm and Industrial Equipment Institute's Brief of January 8, 1968, to the Standing Committee on Finance, Trade and Economic Affairs

1. This is a matter of broad commercial policy consideration outside the bounds of this Department's responsibility. However, it seems likely that the Canadian Tariffs and Trade Committee which was established specifically for the Kennedy Round negotiations, and which received extensive representations from industry and other interested parties, would have taken these considerations into account.

2. The Department of Industry's role in the Machinery Program is compatible with its responsibilities vis-à-vis users and builders of machinery in Canada. Precise administrative arrangements have been worked out between the Departments of Industry and National Revenue to avoid any overlapping of functions. Basically, the Department of National Revenue continues to determine tariff classification as well as to administer remissions once these have been granted by Governor-in-Council under Tariff Item 42700-1, the Department of Industry's responsibility is related specifically to assessing the availability of machinery in Canada in order to recommend, or not, tariff remission. These functions, while complementary, are different and separate.

The transfer of four officers of the Department of National Revenue to the Machinery Program Division of the Department of Industry was accomplished through the normal competition procedures of the Public Service Commission. One of these officers is at an

intermediate level, while the other three are at a junior level. The Machinery Program Division has a total staff of twelve officers on strength.

3. Mr. Raymond C. Labarge, Deputy Minister of National Revenue, provided extensive comment in respect of sales tax, in his letter of February 5, 1968, to the Committee, which was printed as Appendix Z to the minutes of Proceedings and Evidence of February 6, 1968.

4. Applications for remission of duty are considered for specific quantities of machines to be imported over a reasonable period of time, both factors being assessed in relation to the normal commercial operations of the applicant. This practice effectively avoids the likelihood of preemptive imports.

The accounting control of importations subject to remission is centralized in Ottawa rather than at each Customs Port.

5. The \$500,000 minimum against which duty relief does not apply is calculated on the basis of each application. The principal objective of this provision is to encourage importers to group their machinery requirements on one application, thereby minimizing the administrative costs of assessing applications.

Because this provision has the effect of reducing the number of separate applications being submitted to the Department, it has in fact facilitated the administration of the Program; nor are there indications that importers are experiencing any difficulties as a result of this provision, which, in effect, simply requires them to make a single payment of \$75.00 duty against the first of usually several importations covered by one application.

APPENDIX GG

THE CANADIAN CHEMICAL PRODUCERS' ASSOCIATION

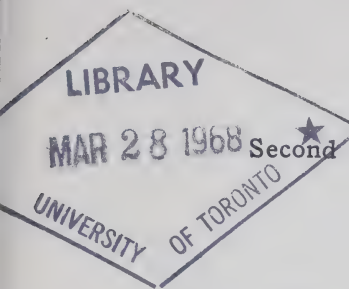
Answer to Question on page 594 of Minutes of Proceedings and Evidence of the Standing Committee on Finance, Trade and Economic Affairs

On Thursday, February 1st, Mr. Gilbert asked "if our exports are \$400 million, what

part of that \$400 million is exported by Canadian-owned companies?"

ANSWER

25% is exported by Canadian-owned companies and the remaining 75% by Canadian subsidiaries of foreign companies.



HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967-68

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26

THURSDAY, MARCH 7, 1968

Respecting Bill S-25,

An Act respecting London and Midland General Insurance
Company.

INCLUDING TENTH REPORT TO THE HOUSE

WITNESSES:

Mr. David F. Alexandor, Parliamentary Agent; Mr. F. W. Rhodes, Secretary of AVCO Delta Corporation and Mr. D. E. Patterson, Chief Registration and Deposit Branch, Department of Insurance.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,	Hees,	Monteith,
Cameron (<i>Nanaimo-</i>	Irvine,	More (<i>Regina City</i>),
<i>Cowichan-The Islands</i>),	Laflamme,	Noël,
Cantin,	Lambert,	Stafford,
Comtois,	Latulippe,	Thompson,
Flemming,	Lind,	Tremblay,
Gilbert,	Macdonald (<i>Rosedale</i>),	Wahn.
Hales,	McLean (<i>Charlotte</i>),	

Dorothy F. Ballantine,
Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, February 29, 1968.

Ordered,—That Bill S-25, An Act respecting London and Midland General Insurance Company, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest:

ALISTAIR FRASER,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

THURSDAY, March 7, 1968.

The Standing Committee on Finance, Trade and Economic Affairs has the honour to present its

TENTH REPORT

Your Committee has considered Bill S-25, An Act respecting London and Midland General Insurance Company, and has agreed to report it without amendment.

However, your Committee recommends that the title of the French version of the Bill be amended to read "Loi concernant La London et Midland Compagnie d'Assurance Générale".

A copy of the Minutes of Proceedings and Evidence relating to this Bill (Issue No. 26) is tabled.

Respectfully submitted,

HERB GRAY,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, March 7, 1968.

(35)

The Standing Committee on Finance, Trade and Economic Affairs met this day at 10.10 o'clock a.m., the Chairman, Mr. Herb Gray, presided.

Members present: Messrs. Ballard, Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Gilbert, Gray, Irvine, Lind, Macdonald (*Rosedale*), More (*Regina City*), Noël, Thompson, Tremblay (*Richelieu-Verchères*), Wahn—(13).

In attendance: Mr. C. J. Connell, Group Vice-President of Avco Delta Corporation Canada Limited and Vice-President of London and Midland General Insurance Company; Mr. K. R. Kirkpatrick, Vice-President and General Manager of London and Midland General Insurance Company; Mr. F. W. Rhodes, Secretary of Avco Delta Corporation Canada Limited, Secretary of London and Midland General Insurance Company, and Chief Counsel of Avco Delta Corporation Canada Limited; Mr. D. E. Patterson, Chief of the Registration and Deposit Branch, Department of Insurance.

The Committee proceeded to the consideration of Bill S-25, An Act respecting London and Midland General Insurance Company.

The Chairman introduced the Parliamentary Agent, Mr. David F. Alexandor, who in turn introduced the officials.

Mr. Alexandor read a prepared statement explaining the purpose of the Bill.

It was moved by Mr. More, seconded by Mr. Lind, sponsor of the Bill, *Agreed*,—That the Statement read by the Parliamentary Agent be appended to this day's evidence. (*See Appendix "HH"*)

The Committee proceeded to the questioning of the witnesses.

The examination of the witnesses being concluded, the Preamble was carried.

Clauses 1 and 2 were adopted.

The Title of the Bill was carried.

It was *agreed* that the Chairman report Bill S-25 to the House without amendment.

The Committee noted that the Company has a French name, the title in the French version of the Bill uses the English name.

On motion of Mr. Irvine, seconded by Mr. Lind,

Resolved,—That the title of the French version of Bill S-25 be amended to read *Loi concernant La London et Midland Compagnie d'Assurance Générale*.

At 10.25 o'clock a.m., the Chairman excused the witnesses and the Committee continued sitting *in camera* to discuss agenda and procedure.

At 10.50 o'clock a.m., the Committee adjourned to the call of the Chair.

D. E. Levesque,
Acting Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, March 7, 1968.

• 1010

The Chairman: Gentlemen, I think we can start unofficially for the moment in the hope that we will be able to proceed officially by the time we are ready to formally dispose of the Bill.

The item on our agenda today is consideration of Bill S-25, an Act respecting the London and Midland General Insurance Company. Representing the proponents of the Bill is their Parliamentary Agent, Mr. David F. Alexandor, and I will ask him to introduce the other members of the delegation.

Mr. David F. Alexandor (Parliamentary Agent): Thank you, Mr. Chairman. Mr. Kirkpatrick, the General Manager of London and Midland General Insurance Company; Mr. Connell, Vice-President of London and Midland General Insurance Company and Mr. Rhodes, Secretary of the Company and Chief Counsel.

The Chairman: Thank you, Mr. Alexandor. I note that the sponsor of the Bill, Mr. Jim Lind, who is also a member of our Committee, is here and we ask that the record note that officially. I think we should hear first from the representative of the Department of Insurance in order that he may give us the comments of that Department on this Bill.

Mr. D. E. Patterson (Chief, Registration and Deposit Branch, Department of Insurance): Mr. Chairman and honourable members, the sole purpose of this Bill is to change the name of this Company from the London and Midland General Insurance Company to Avco General Insurance Company. There are two reasons for this desired change. Primarily, this company is a member of the Avco group of companies, and Avco Corporation is the parent company of the entire group. Second, last year there was a company in the United Kingdom that used the words "London" and "Midland" as the main words in its name. That company went into bankruptcy and

there have been some questions as a result of that. The Department received several enquiries asking if there was any connection between the two London and Midland companies. There is no connection whatsoever, and that is the second reason for requesting this change of name to Avco General Insurance Company.

The Chairman: Mr. Patterson, speaking on behalf of the Department, is there any reason the Committee should not favourably recommend this change to the House?

Mr. Patterson: Mr. Chairman, there is no reason of which we are aware.

The Chairman: I think we should now call upon the Parliamentary Agent, Mr. Alexandor, and also his associates, to make a presentation to us. I note, which is in line with the previous discussion of this Committee with respect to consideration of private bills, that I asked our Acting Clerk, Mr. Levesque, to arrange to have some background material on the Bill distributed to the members before the hearing. This step was taken, and I trust we will be able to make this a continuing practice.

I see we are now in a position to proceed officially and I ask that this be noted in the record. Mr. Alexandor, would you proceed?

Mr. Alexandor: Thank you, Mr. Chairman. I would like to make a few comments on this background material which you have in front of you. There are five operating and active companies which are subsidiaries of Avco General Insurance Company which were inadvertently omitted from this list. They are Avco CFC Limited, Avco Delta Dominion Limited, Avco Delta Quebec Limited, Avco Finance Limited and Avco Highland Plan Limited. The list of companies numbered (1) to (8) are also subsidiaries. The companies numbered (4) to (8) are either nonoperative or intended to be nonoperative. In other words, they are not accepting new business.

I would also like to say that there is an additional reason the company is seeking this change of name. I believe there are ten insur-

ance companies in Canada which use the word "London" as part of their corporate name. In an effort to achieve some form of distinctiveness the company wishes to change its name to Avco General Insurance Company.

• 1015

I have no further comments. The gentlemen here, the officers of the Company, will be pleased to answer any questions you may put to them.

The Chairman: I ask the Committee whether they would like to see the statement distributed yesterday by the Parliamentary Agent of the Bill, on which he has based his remarks this morning, made part of our record? I think we may as well. I do not think he has read it in its entirety although he has summarized it. I suggest the Committee might want to incorporate it in our record. Our printed proceedings will note the additions.

Mr. More (Regina City): I move that the statement distributed to us for consideration by Mr. Alexandor yesterday be made an appendix to today's *Proceedings*.

Mr. Lind: I second the motion.

Motion agreed to.

The Chairman: We are on the Preamble now. If Mr. Alexandor's associates do not have any additional remarks I will open the meeting for questions and comments from the members.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Mr. Chairman, I have a point I would like to bring up. It has nothing to do with this Bill. You may recall that at earlier hearings of the Committee last year I raised a question about the various new life insurance companies being incorporated, and suggested at that time that perhaps the Committee should have some sort of hearing, some sort of investigation of the operations of the life insurance business. It seemed to me that we were proliferating them a great deal. This is not so in this case. It is an existing company.

As you will recall, Mr. Humphrys told us at that time that the Department was a bit concerned about the continual incorporation of new life insurance companies and they were asking themselves whether they really were

necessary. You very kindly permitted me to have this exchange with the witnesses at the time. . .

The Chairman: Perhaps I was too kind.

Mr. Cameron (Nanaimo-Cowichan-The Islands): . . .and I wonder whether you have given any more consideration to the possibility of the Committee's having a sort of fact-finding session with representatives of the insurance companies and various other organizations so that we can find out what the policies of the industry are with regard to investment, costs, and so on, to guide us in future decisions.

The Chairman: Speaking personally, I think it would be a very useful area of work for the Committee. We should note and remind ourselves that unfortunately the present rules of Parliament do not permit us to undertake independent investigations, no matter how useful members of the Committee may think they are. Instead, we have to have specific Orders of Reference from the House covering the areas we look into.

Perhaps the useful thing for me to do in my capacity as Chairman would be to get in touch with the Minister of Finance to find out whether the government would be interested in asking the House to approve an Order of Reference in this regard. Mr. Patterson is here. He might want to take note of this so that if the advice of the Department is sought with respect to this informal request I am prepared to make on behalf of the Committee, the Department will be able to express its views.

As I say, speaking personally I think this would be a very useful area of inquiry by us although, as you very fairly point out, Mr. Cameron, this particular issue does not apply directly to this Company which already is incorporated.

Mr. Clermont: Mr. Chairman, I understand from what was said before the Committee this morning that the companies numbered (4) to (8) in the paper delivered to us last night will be non operating companies in the near future.

Mr. Alexandor: That is correct.

Mr. Clermont: What about number (1)?

Mr. Alexandor: Number (1) is an active, operating company.

Mr. Clermont: According to the last paragraph on page 2, one of the main reasons for your asking for a change of name is because the name of the present company is similar to one in England that is not operating any more.

Mr. Alexandor: One of the reasons for the proposed change of name is that the name of the company, London and Midland General Insurance Company, is almost identical with that of an insurance company in the United Kingdom which recently became insolvent causing embarrassment to the company because there was confusion in the minds of some of the 6,000 agents and representatives of the company in Canada.

• 1020

Mr. Clermont: Thank you.

The Chairman: Are there any further questions on the preamble?

Mr. Gilbert: Mr. Chairman, when the Parliamentary Agent said that companies (4) to (8) are non-operative did he mean that they intended to wind them up?

Mr. Alexandor: This is correct.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Except for No. (2), the Adanac General Insurance Company of Canada, I notice the others appear to be finance companies and, in one case, a motor company and, in another case, a realty company which was apparently an investment company. Are these to be part of your general insurance company operations?

Mr. Alexandor: No, sir. The parent company, Avco Delta Corporation Canada Limited, is generally in the business of finance and related activities. The only two subsidiaries which are in the insurance business are the company under consideration this morning, London and Midland General Insurance Company and Adanac General Insurance Company of Canada.

The Chairman: Mr. Alexandor, if you like, you too can call upon any of the people present from the companies to supplement or to add to your remarks in answer to any question or comment that comes forward from the Committee.

Mr. Alexandor: May I clarify the answer to a member's question—I think it was Mr.

Clermont's. The other companies, Nos. (4) to (8), will either be wound up or disposed of. I should have added that.

The Chairman: Just before the meeting opened Mr. Lind and Mr. Irvine brought a matter to my attention which they may want to bring to the attention of the Committee at this time. I understand they have noted an error in the translation with respect to the French text of the Bill. Perhaps you ought to bring this to the attention of the Committee.

Mr. Irvine: Mr. Chairman, I would like to move an amendment to the title of the French version of this Bill. I think you do have a copy of the change as proposed. Because of my inferiority complex with regard to speaking the French language I would not want to desecrate it by trying to read it, and I would ask you, Mr. Chairman, to read it for me.

The Chairman: I understand in the French version of the preamble of the Bill the present name of the company is given in French as "La London et Midland Compagnie d'Assurance Générale" and so the title should read "Loi concernant La London et Midland Compagnie d'Assurance Générale". It is not a major point but one I think we should be concerned with if we want to see that the best style and form is used with respect to official documents in both of our official languages. I think this is your point, Mr. Irvine, and Mr. Lind also brought this to our attention. Is there any comment on this point? In other words, the present title refers to "Loi concernant la London and Midland General Insurance Company" and on further reflection it appears that the better style in French would be "Loi concernant La London et Midland Compagnie d'Assurance Générale." Yes, it actually was a mistake in the printing. The proper title of the Bill appears in French, but the printing of the preamble is not set forth properly. The Clerk informs me that in the past two alternate methods have been used to correct such a situation. One is to have a formal amendment; the other is to merely draw this to the attention of the House in our report. In order to avoid doubt, I think, an amendment should be made to dispose of this problem.

•1025

Mr. Irvine: I would like to move an amendment to the title of the French version of this bill:

«Loi concernant la London et Midland
Compagnie d'Assurance Générale»

instead of:

«Loi concernant la London and Midland
General Insurance Company»

Mr. Lind: I second the motion.

Amendment agreed to.

The Chairman: Is there any further discussion on either amendment or the preamble? If not, let us proceed with formal consideration of the Bill.

Clauses 1 and 2 agreed to.

Preamble agreed to.

Title agreed to.

Bill as amended agreed to.

The Chairman: Shall I report the Bill as amended?

Some hon. Members: Agreed.

The Chairman: Gentlemen, we have completed our consideration of this Bill. I wish to thank you for attending, not only to give us the necessary explanations but to provide background material. Your co-operation enabled us to expedite our consideration of the Bill.

Before I adjourn the meeting I suggest that rather than try to convoke a meeting of the Steering Committee, which is difficult because we are all very busy, perhaps at this time we could have a meeting of the Steering Committee in camera. There are some very important matters to discuss regarding our agenda.

I excuse both Mr. Alexandor and Mr. Patterson, as well as their associates. I would like the interpretation staff to remain.

Mr. Alexandor: Thank you, Mr. Chairman.

APPENDIX "HH"

Re: BILL S-25

An Act respecting London and Midland
General Insurance Company
(By Parliamentary Agents)

Delta Acceptance Corporation Limited was incorporated as a public company under the laws of Ontario by Letters Patent dated March 26, 1954. In July, 1962 Delta Acceptance Corporation Limited acquired the whole of the outstanding share capital of London and Midland General Insurance Company, a company which had been incorporated by Act of Parliament dated July 17, 1947 under the name of the Progressive Insurance Company of Canada and had subsequently changed its name to London and Midland General Insurance Company by Act of Parliament dated April 12, 1957. Subsequently, Delta Acceptance Corporation Limited changed its name to Avco Delta Corporation Canada Limited.

London and Midland General Insurance Company carries on a general insurance business in most of the provinces of Canada. The main reason for the proposed change of name is that it is the policy of the parent company to foster a cohesive sense amongst all its subsidiary organizations by arranging for the word "Avco" to appear in the corporate titles of the various companies in the group. The following companies are also subsidiaries of Avco Delta Corporation Canada Limited:

- (1) Avco Delta Realty Limited, formerly Grand Prairie Investments Limited
- (2) Adanac General Insurance Company of Canada
- (3) The North West Mortgage and Finance Company Limited
- (4) Consolidated Finance Western Limited

(5) Empire Acceptance Corporation Limited

(6) General Finance Company Limited

(7) Lorne-Bruce Motors Limited

(8) Waverly Finance Company Limited.

Since Adanac General Insurance Company of Canada only underwrites special risks, and since there is little demand for this type of business, this company may be wound up in due course. It was intended to wind up The North West Mortgage and Finance Company Limited; however, it has been discovered that the charter is valuable for dealing in second mortgages in the Province of Manitoba. It is likely that the name will be changed in the near future. All of the remaining companies in this list are non-operating. It is intended to wind all of them up in the near future pending, for example, the distribution of a designated surplus (Consolidated Finance Western Limited), the maturing of debentures (Empire Acceptance Corporation Limited), and the transferring of any old business still remaining. A few of the companies are just corporate shells.

Therefore, in effect there are nine companies in this group which are operating at this time. All bear the name "Avco" except Adanac General Insurance Company of Canada and London and Midland General Insurance Company. A tenth company (The North West Mortgage and Finance Company Limited) will be operating and will likely change its name.

The company's desire to change the name of London and Midland General Insurance Company has to some extent been enhanced by virtue of the publicity given to the insolvency in the United Kingdom of an insurance company (entirely unconnected with the applicant) bearing the same name.

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1967-68

STANDING COMMITTEE
ON
FINANCE, TRADE AND ECONOMIC AFFAIRS
Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 27

THURSDAY, MARCH 14, 1968

Respecting the
Report of the Task Force on the Structure of
Canadian Industry

WITNESS:

Melville H. Watkins, Associate Professor of Economics,
University of Toronto.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont
and Messrs.

Ballard,	Hees,	Monteith,
Cameron (<i>Nanaimo-</i>	Irvine,	More (<i>Regina City</i>),
<i>Cowichan-The Islands</i>),	Laflamme,	Noël,
Cantin,	Lambert,	Stafford ⁽¹⁾ ,
Comtois,	Latulippe,	Thompson,
Flemming,	Lind,	Tremblay (<i>Richelieu-</i>
Gilbert,	Macdonald (<i>Rosedale</i>),	<i>Verchères</i>) ⁽²⁾ ,
Hales,	McLean (<i>Charlotte</i>),	Wahn—(24).

Dorothy F. Ballantine,
Clerk of the Committee.

⁽¹⁾ Replaced Mr. Mackasey on February 15, 1968.

⁽²⁾ Replaced the late Mr. Tremblay on February 15, 1968.

ORDERS OF REFERENCE

THURSDAY, February 15, 1968.

Ordered,—That the names of Messrs. Tremblay (*Richelieu-Verchères*) and Stafford be substituted for those of the late Mr. Tremblay and of Mr. Mackasey on the Standing Committee on Finance, Trade and Economic Affairs.

THURSDAY, February 15, 1968.

Ordered,—That the Report of the Task Force on the Structure of Canadian Industry entitled "Foreign Ownership and the Structure of Canadian Industry" be referred to the Standing Committee on Finance, Trade and Economic Affairs.

Attest:

ALISTAIR FRASER,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, March 14, 1968.

(36)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Cantin, Clermont, Comtois, Flemming, Gray, Lambert, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), Monteith, More (*Regina City*), Noël, Thompson, Saltsman, Tremblay (*Richelieu-Verchères*), and Wahn—(17).

Also present: Messrs. Faulkner, Gilbert and Lewis.

In attendance: Mr. Melville H. Watkins, Associate Professor of Economics, University of Toronto, and Chairman of the Task Force on the Structure of Canadian Industry.

The Chairman reminded the Committee that during the *in camera* portion of the meeting of March 7, 1968, the Committee had noted that there are two outstanding Orders of Reference before the Committee, namely,

- (a) By-Law No. 1 of the Canada Deposit Insurance Corporation, and
- (b) Bank Cost of Borrowing Disclosure Regulations.

The Chairman read a draft Report to the House on the subject of the By-Law of the Canada Deposit Insurance Corporation which was *approved* on motion of Mr. Cameron (*Nanaimo-Cowichan-The Islands*), seconded by Mr. Comtois.

Ordered,—That the Chairman present the Report to the House.

With reference to the Bank Cost of Borrowing Disclosure Regulations, it was agreed that the Chairman would attempt to arrange a schedule of meetings for after the recess.

The Committee then proceeded to consideration of the Report of the Task Force on the Structure of Canadian Industry.

The Chairman introduced Professor Watkins, who made a statement and was questioned on the work of the Task Force and the major issues dealt with in the Report.

At 1.15 p.m. the Committee adjourned to Tuesday, March 19, 1968, at 11.00 a.m., when Professor Watkins will again be the witness.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, March 14, 1968.

The Chairman: I think we are in a position to start, gentlemen. I now declare open this meeting of the Standing Committee of the House of Commons on Finance, Trade and Economic Affairs.

[Translation]

The Standing Committee on Finance, Trade and Economic Affairs is now in session.

• 1110

[English]

Gentlemen, today our order of reference from the House is that the report of the Task Force on the structure of Canadian industry, entitled "Foreign Ownership and the Structure of Canadian Industry", be referred to the Standing Committee on Finance, Trade and Economic Affairs. Our principal witness this morning is the Chairman of the Task Force, Professor Watkins. Before calling on Professor Watkins, there are one or two other matters of procedure I would like to dispose of.

First of all, as outstanding orders of reference we have By-Law No. 1 of the Canada Deposit Insurance Corporation and the Bank Cost of Borrowing Disclosure Regulations. I think I brought to the attention of the Committee last week that the by-law of the Canada Deposit Insurance Corporation, which was referred to us, has since been amended to bring it into line with certain amendments to the Canada Deposit Insurance Corporation Act. However, these amendments have not yet been referred to us. I suggest to the Committee there would be little point in our looking at a by-law which was not in the form actually being used by the Deposit Insurance Corporation. I would therefore like to recommend to the Committee that we agree on a report along these lines:

On July 5, 1967, By-Law No. 1 of the Canada Deposit Insurance Corporation passed as Order in Council P.C. 1967-579, dated March

30, 1967, and amended by Order in Council P.C. 1967-1065, dated May 26, 1967, was referred to your Committee for study.

It has been brought to the attention of the Committee that the By-Law has been further amended by Orders in Council P.C. 1968-197 dated February 1, 1968, and P.C. 1968-295 dated February 15, 1968, in order to bring it in line with the recent amendments to the Canada Deposit Insurance Corporation Act. The amendments to the By-Law have not, however, been referred to the Committee.

Your Committee is of the opinion that no useful purpose would be served by studying the By-Law in its original form, but would be pleased to study the revised By-Law should the House feel it is desirable.

Are there any comments on this draft report?

May I have a formal motion to approve this report?

Mr. Cameron (Nanaimo-Cowichan-The Islands): I so move.

Mr. Comtois: I second the motion.

Motion agreed to.

The Chairman: With regard to the regulations for disclosure of interest rates on borrowing from banks, I believe there are three or four groups that would like to submit briefs to us. Because we do not know at the moment exactly when the House might adjourn or prorogue for an interval, I think perhaps it would be best if we left this matter in the hands of the Chairman. I will attempt to schedule meetings to hear these briefs in line with the developments of the work of the House. Are there any comments?

I have already read the order of reference, which is the main reason for our meeting today. I should report to the Committee, again in line with our discussions of last week, that I issued a press release in which I indicated that our first witness today would be Dr. Watkins. I went on to say:

It is expected that at subsequent meetings the Committee will hear from other Task Force members. Following this the Committee will go on to hear from interested groups and members of the public at further meetings which will begin after a period of time has elapsed during which briefs can be prepared and filed.

I continued by saying:

Because definite information is not available as to when the current session of the House of Commons may be adjourned or prorogued and when it may resume the Committee has, as yet, not set a final date by which all those who wish to express views on the report must file their briefs.

I concluded by saying:

... however, that all those wishing to do so should certainly begin preparing their briefs now and should indicate as soon as possible their desire to file a brief (and whether they wish to appear personally before the Committee in support of it) to the Clerk of the Committee...

• 1115

The news media were kind enough to give my comments some attention. Unfortunately perhaps, they did not see fit to indicate that I felt it desirable for interested groups to let the Clerk of the Committee know at the earliest date they were thinking of preparing briefs. Perhaps I might repeat this, because I think it was the key part of the announcement I made which arose out of the discussions of the Committee last Thursday. I think it is very important to us to know—once we know more about the sittings of the House, and so on—just what burden of work we face and the time we should allot for it.

Our witness today is Dr. Melville H. Watkins. He studied at the University of Toronto and the Massachusetts Institute of Technology. He is on staff at the University of Toronto and is now Associate Professor of Economics. His particular interest in teaching and research is economic history. His publications include the *Economics: Canada*, of which he was joint editor, *Approaches to Canadian Economic History*, again he was joint editor of this volume, articles such as *A Staple Theory of Economic Growth*, which appeared in the *Canadian Journal of Economics and Political Science* in May, 1963;

Technology and Nationalism, which appeared in a volume entitled, *Nationalism in Canada*. He has been a frequent contributor to the *Canadian Forum* and a member of the editorial board, and he also served as chairman of various community and other groups.

Dr. Watkins, I would now ask you to present your brief. Even though copies were distributed before the opening of this meeting and because it is not too long, we might ask you to make your presentation by reading it or presenting it along the lines of the statement we have.

Professor Melville H. Watkins (Chairman of the Task Force on the Structure of Canadian Industry): Permit me to begin, Mr. Chairman, by thanking this Committee for its readiness to hold hearings on the Task Force Report on Foreign Ownership and the Structure of Canadian Industry so soon after its tabling in the House of Commons. I know that I speak for all of my colleagues on the Task Force when I say that we appreciate your interest and concern with our Report.

I appear before you today in my capacity as head of the Task Force which prepared the Report. The Task Force was appointed a little better than a year ago to assist the government in examining the issue of foreign ownership and the structure of industry. The Task Force consisted of eight academic economists serving on the faculties of six universities.

Appointments to the Task Force were made by a ministerial committee under the chairmanship of the hon. Mr. Gordon and further consisting of the hon. Mr. Sharp, the hon. Mr. Marchand, the hon. Mr. Teillet and the hon. Mr. Turner. The ministerial committee oversaw the work of the Task Force and over the course of approximately one year I met with the committee some half dozen times.

As well, there was a committee of senior officials which held about the same number of meetings, either with myself or jointly with the Task Force as a whole. This latter committee acted in a consultative role with the Task Force.

The Task Force was instructed to prepare a report for the government on foreign ownership and the structure of industry, to do such research as it deemed necessary, and to complete its work as quickly as it thought feasible. The Task Force proceeded to initiate some research projects and to prepare a number of background papers which would

facilitate the writing of its report. All members of the Task Force except myself undertook the writing of such papers, and we appointed a number of research associates to our staff to prepare special studies for us.

It was understood from the outset that the ultimate disposition of our report was a decision for the government. Our Report was completed for circulation to the ministerial committee on January 12, in English, and was tabled in the House of Commons, in English and French, on February 15, without endorsement by the government. It was hoped that its publication would contribute to the public dialogue on the issue of foreign ownership.

It was never intended by the Task Force that its research studies and background papers should be published. A Task Force is not a royal commission. These papers were prepared for the purpose of the Task Force. They were circulated to ministers and senior officials for their information and to facilitate their consideration of the Report. Such arguments and findings of these papers, as were judged relevant and correct by the Task Force, were incorporated in our Report. The individuals who prepared these papers, whether members of the Task Force or research associates, are now at liberty to do with them as they wish, subject only to the necessary constraint of confidentiality which attaches to any of other data.

• 1120

The ability of the Task Force to complete its work in less than one year reflects two facts. On the one hand, a good deal is already known about foreign ownership in Canada from both public and private research. Much of the Report is based on existing knowledge, and properly so. The most important purpose filled by the Task Force may well be to bring this knowledge before a wider audience. On the other hand, a Task Force does not have, and ought not to have, the luxury of three or four years before reporting. When dealing with an important issue, it should have some sense of urgency.

The Report represents a consensus of the views of the members of the Task Force. While the Task Force consisted of eight persons, this statement, strictly speaking, applies to only six. Professors Rosenbluth and Woodfine ceased their participation in the work of the Task Force in early September

because of prior academic commitments. While the Task Force had reached a consensus in general terms on its proposals at that time, the Report itself had not been drafted.

It has been said that if you put six economists in a room to discuss any issue, you will get twelve opinions. That has not been true in this case. At the same time, consensus does not mean that every member of the Task Force agrees with every sentence, but rather that all six endorse the over-all Report.

The dominant theme of our Report is that foreign direct investment should be seen in the framework of the operations of multinational corporations. What is involved is not simply a capital flow, as the term foreign investment seems to imply, but rather a package of technology, management, product, and market access, as well as capital. Hence the benefits from foreign direct investment are larger than they would be if only capital were involved. But so too are the costs.

Most direct investment is accounted for by large corporations with market power, or oligopolists. Because these corporations are not fully disciplined by the market, they should be subjected to government policies so that they will more fully serve the public interest. When these corporations are foreign-owned, the need for government policy is increased so as to mitigate any tendency for these corporations to be responsive to foreign laws and policies.

There has been a tendency in this country for those who wish to minimize the costs of foreign ownership to insist that foreign-owned subsidiaries are really Canadian companies automatically respecting Canadian interests, or else that they are really global entities transcending the interests of nation-states. Both of these points of view represent wishful thinking. At least so far as American subsidiaries are concerned, when the chips are down these companies too often prove to be neither Canadian nor global, but American.

The notion that companies can, or should be, a-national should be unacceptable to anyone who believes that the public interest always requires exercising some control over private power, and that the nation-state, whatever its limitations, remains the only effective means for doing that.

The question is whether these companies are going to be Canadian or American. Our Report simply says that in certain critical respects such as foreign policy, the answer

must be unambiguous, that they are Canadian.

On the basis of our conception of what foreign direct investment is really all about, the Report identifies six major issues and puts forth proposals with respect to each.

1. Canada must come to terms with the multinational corporation as a fact of life. Foreign ownership and control are already pervasive in Canada and are likely to remain so. In order to provide a sharper focus for government policy, the Report recommends the creation of a special agency to co-ordinate policies with respect to multinational enterprise. We suggest a number of functions it might fulfil.

One of these is to do research. In effect, work of the nature done by the Task Force should be continued on a regular basis. The issues involved are too important to be dealt with on the basis of an occasional crash program. The Dominion Bureau of Statistics has done first-class work on foreign investment, and would be able to do more if its resources were increased, but policy-oriented research is not properly one of its functions. The Economic Council has been saying some useful things lately about the need to rationalize Canadian industry and will certainly continue to do so. It has not, however, to date dealt in any comprehensive way with foreign ownership and it is, in any event, not directly involved in the policy-making process. Individual departments can do worthwhile research but it is likely to be focussed on their specific interest.

Canada needs a set of comprehensive policies toward multinational enterprise, and this is not likely to emerge and be sustained unless an appropriate and responsible agency exists. Such an agency does not have to constitute any substantial addition to the civil service. In considerable part, personnel could be pulled together from existing departments. Also, the agency could be a section of an existing department, provided the head has access to the minister.

2. There is a shocking absence of information about the activities of large corporations. Our Report recommends five specific steps that could be taken, though it recognizes that not all may be necessary.

Concurrently with the work of the Task Force, the government has been considering amendments to the Canada Corporations Act and our Task Force has co-operated in that work. We certainly hope that action will shortly be taken in that regard.

It is recognized that all proposals in this area face possible difficulties as to the constitutional powers of the federal government. While the Task Force had legal advice on this matter, our general feeling was twofold: that the government should be willing to take initiatives that would test its constitutional rights, and that where federal power is lacking, provincial governments might recognize the importance of the issues involved and take the necessary steps.

Because there are so many possible routes by which disclosure might be obtained, there is a danger of continuing to do too little under the guise of weighing the alternatives. Coming to terms with large private companies regardless of the nationality of ownership is a minimum necessity, and company law is an obvious means. But the greatest potential probably lies in amending the Corporations and Labour Unions Returns Act so that, as a minimum, its original intent is served.

Until appropriate steps are taken, the corporations themselves remain the chief repositories of information about their activities. It may be that business associations, and even individual corporations, will appear before this Committee. I would be so bold as to suggest that in that case they should be encouraged to provide information on their activities not now available to the public as the *quid pro quo* for any special pleading. Otherwise, it may not be possible for a proper judgment to be made on their submissions.

3. The economic benefit for Canadians from foreign direct investment is not as large as it should be in considerable part because of the absence of competition. Foreign firms sometimes come to Canada not for reasons of efficiency per se but because they want to hold a market share behind the tariff wall or to take advantage of advertising spillover. They may choose to lead a quiet life and not to compete vigorously with respect to price. Canadian policy should be directed toward maintaining competition within Canada by anti-combines policy and by tariff policy.

Our Report does not spell out in detail how anti-combines policy should be changed because of a prior reference to the Economic Council in this regard. We do point out, however, that the revision of anti-combines legislation should be done in a way that does not preclude the rationalization of industry in the public interest. To combine the two goals of competition and rationalization is not an easy matter, but it should prove possible.

4. Without an appropriate set of industrial policies which create an efficient structure of industry in Canada, the benefits of foreign direct investment tend to be emasculated. In recent years, a good deal has been written and said about the virtues of tariff reduction. On the whole, the Task Force agrees with this aim, but tariff reduction is not the universal panacea to solve all our problems and it might well exacerbate some of them.

The structure of Canadian industry is frequently one of too many and too small firms. Tariff reduction provides a spur for rationalization, but does not in itself provide the means. There remains a need for leadership, planning and capital. The Department of Industry has played a role in the past and should continue to do so, but there is also a possible role here for the Canada Development Corporation to provide both entrepreneurship and capital. Also there is a need to ensure that American anti-trust legislation does not exclude American-controlled firms from the rationalization programs.

• 1130

Tariff reduction will facilitate rationalization within multinational corporations and in a manner appropriate to their mode of operations. The result could be more decisions made by the head office and less by the subsidiaries. In turn this could mean less sensitivity to Canadian interests and needs. This suggests that rationalization programs should be accompanied by deliberate measures to ensure a stronger Canadian presence through Canadian ownership and through government policy.

5. The Task Force feels very strongly that the intrusion of American law and policy into Canada through the vehicle of the American subsidiary in Canada must cease if Canadian sovereignty and national independence are to be maintained.

Our major recommendation in this regard is that a government export trade agency be created to ensure that export orders are filled when they conform with Canadian law and Canadian foreign policy. It also appears to be our most controversial recommendation. To speak frankly, I have been disappointed with the reception it has been accorded. United States restrictions on the freedom of its Canadian subsidiaries to export to Communist countries is a serious matter, very probably involving economic costs and certainly creating political costs. There has been a

tendency in this country on this issue either to engage in helpless hand wringing or to advocate intemperate responses such as nationalization.

The Task Force worked long and hard to try to find a viable solution. We think we have succeeded, or at least that our proposal deserves serious consideration. If there are other solutions they should be brought forward, but some solution is better than none.

Our proposal is a most moderate one. It would establish how many bona fide orders there actually are which are not being filled. If, as is sometimes alleged, there are few, then we would know this and a present source of tension in Canadian-American relations would be mitigated. For genuine orders, in no circumstances would an American-owned firm be required to fill the order if a firm owned in Canada or overseas could do so.

We are not trying to create trouble for its own sake. When the order could be filled only by an American-owned firm, then and only then would the agency compel adherence to Canadian policy.

Nor should credence be given to the argument that corporations should be free to trade with whom they wish. American subsidiaries in Canada are incorporated under Canadian law, federal or provincial, and they should be responsive to Canadian policies and interests. Certainly they must not be permitted to argue that they should be free to choose whether or not to trade with Communist countries when they are, in fact, simply obeying foreign law.

In the final stages of our work, the United States issued its new mandatory controls on direct investment. Our Report was virtually completed, and none of our major recommendations hinged on that fact.

Canada has now been exempted from these controls. Given their consequences for the Canadian dollar in the past two months, this is a welcome development.

There is an important lesson from this sequence of events. It is clear that doubts as to which national policy applies to American subsidiaries in Canada can, in the final analysis, be resolved only in Washington. It is fortunate that American policy toward Canada is typically reasonable. There is, of course, a case to be made for ensuring that Canadian

policy toward the United States is such as to increase the probability toward that American policy toward Canada will be favourable. But there is also a case to be made not only for vigorous Canadian policies which will ensure that in the future firms incorporated in Canada will instantly recognize that they are first and foremost Canadian firms, but also for policies which, in the long run, will increase the extent of Canadian ownership of Canadian economic activity so as to reduce our vulnerability to American economic policy.

Furthermore, in order for Canada to carry out the commitment that we will not permit American subsidiaries in Canada to be used as conduits for U.S. funds to other countries, we may well have to introduce information-gathering procedures of a mandatory nature more or less along the lines which were recommended by our Report for at least the larger foreign-owned subsidiaries.

• 1135

More generally, recent events suggest the need for exhaustive up-to-date information on the foreign exchange transactions of firms, information of the kind that results automatically under foreign-exchange controls. It should be possible to do this in the absence of foreign exchange controls. Certainly the present guiding principles questionnaire is grossly inadequate for this purpose.

6. Foreign ownership creates benefits, but it is important that the share which goes to Canadians be maximized. It is generally accepted by economists that the most obvious benefit for the host country from foreign direct investment is the taxes collected. Because of the great attention paid to the Canadian tax system as a result of the Royal Commission on Taxation, the Task Force did not involve itself in any detailed way in this area.

We do make the general but important points that there should be an on-going examination of taxation procedures to ensure that Canada gets its proper share of taxes paid by multinational corporations, and that caution should be exercised in granting special tax arrangements or subsidies to industries which are predominantly foreign-owned. There has been some suggestion that these recommendations imply discrimination, but this is not the case. In some respects, foreign-owned firms differ from Canadian-owned firms. Failure to obtain the full share of taxes in Canada from foreign-owned firms is likely

to rebound to the benefit of foreign shareholders or foreign governments. For domestic firms, failure to collect proper taxes in Canada may be socially undesirable, but it does not reduce over-all Canadian incomes and affects only their distribution.

The Task Force strongly endorses the creation of the Canada Development Corporation as a means of increasing participation by Canadians, both as investors and as decision-makers. We have been accused of resurrecting worn-out ideas. There is, however, no virtue in novelty for its own sake and it was our conviction that the Canada Development Corporation was highly relevant and necessary, and that it should be created. If giant firms are a fact of life, the CDC might be thought of as a Canadian version thereof.

This country has often taken institutional initiatives in the past, at least in a North American context, as in the creation of Ontario Hydro and the CBC. I think the CDC has similar possibilities to make a lasting contribution to Canadian economic life.

The question of whether foreign-owned subsidiaries should be encouraged to issue their shares in Canada has long been a contentious issue. The Task Force considered the pros and cons at length and, on balance, came down on the side of more encouragement. The chief reason was because of the state of the Canadian capital market. A rising demand for equities is not being matched by a rising supply of Canadian equities. Canadian purchases of American securities have increased sharply in recent years and are likely to continue to do so unless something is done.

Our proposal in this regard is modest: that stronger incentives be considered to encourage all large firms to issue shares in Canada and thus foster more Canadian ownership.

Our proposals are numerous, but they are not a package. We are not presenting Canadians with an all or nothing choice. Furthermore, there is no necessary economic cost involved in implementing these proposals. Rather, they are intended to increase the economic benefits from foreign direct investment.

If all of our proposals were put into effect, Canada would still have one of the most liberal policies toward foreign direct investment in the world. Foreign corporations should still find Canada a profitable place to invest. Indeed, with a better set of industrial policies on the part of the government they should earn larger profits, and Canadians should find

themselves deriving larger economic benefits and enjoying more political independence.

My personal view is that our proposals add up to a bare minimum of what must be done over the near future if Canada is to have any kind of real independence.

I hope that you will have occasion, Mr. Chairman, to invite my five colleagues who were on the Task Force and who are presently on this side of the Atlantic to appear before you. While each of them has widespread knowledge of the many issues involved in foreign ownership, you might find it particularly useful to discuss with Professor Bonin licensing and joint ventures as alternatives to direct investment; with Professor Safarian the sources of economic growth, the performance of firms and the balance of payments; with Professor Rotstein the politics of foreign investment and particularly extraterritoriality; with Professor Hymer the policies of other countries toward multinational enterprise and the interrelationship of oligopoly and foreign ownership, and with Professor Masson foreign ownership in resource industries.

• 1140

You might also find it useful to invite some of our research associates. I include at this point a list of names and topics which I think perhaps I do not need to read.

The Chairman: No, we have it before us, Doctor.

Professor Watkins: None of these research associates are responsible for the contents of our report and the use we made of their work. I would be pleased, Mr. Chairman, to answer any questions.

The Chairman: Thank you Professor Watkins. Will those who would like to ask questions of Professor Watkins please signify in the usual way. I have already noted for my list Mr. Wahn, Mr. Macdonald and Mr. Saltzman. I also see Mr. Cameron, Mr. Clermont, Mr. Lambert and Mr. Flemming. To ensure some immediate balance between the various party groups, I may not take them exactly in this order, and I know the Committee will not object to that. We will start with Mr. Wahn.

Mr. Lambert: Pardon me, Mr. Chairman, may I raise a slight point of order. In view of the House business this afternoon I rather suspect that for this Committee a meeting this

afternoon will be highly impractical and therefore our questioning should be short.

The Chairman: You have anticipated a point I was going to raise. I am glad you are implying agreement in advance that we should not attempt to meet this afternoon, because I think most of us are interested in this tax bill.

I would suggest, if we do not complete our questioning of Professor Watkins this morning, that I attempt to find a mutual convenient time next week, if we are still sitting, when we could have Dr. Watkins back to pursue these very important issues before us with him at some greater length. This is why I suggested we have some alternation between the party groups in the first round rather than take the list in the immediate order I have it. We will start with Mr. Wahn.

Mr. Wahn: Mr. Chairman, Dr. Watkins, your report suggests that we should proceed with the Canada Development Corporation. Various people have various ideas as to how this Corporation should be financed and what its objects should be, and sometimes these ideas are conflicting. Have you made any recommendation as to whether CDC should be financed solely by governmental funds, private and public funds, or private funds, and what basically should its objects be. Should it be to buy back Canadian businesses that have gone to the United States, should it be to prevent take-overs of Canadian businesses—if these are the purposes then perhaps public funds are appropriate for its financing—or should it be to provide a medium for small Canadian investors to invest in Canadian enterprises or to provide Canadian capital for new enterprises. What should its objectives be? I put the question because until you decide what its objectives are you cannot determine what the nature of the corporation should be.

Professor Watkins: That is quite right, we chose not to discuss directly the issue of how the Canada Development Corporation should be financed, but I think we were fairly explicit on what we thought its objectives should be, and there would then be certain implications for its finance perhaps follow from that. We thought it should be a development corporation in the sense of acting like a large giant holding company trying to organize consortia of Canadian investors and Canadian and foreign firms for particular kinds of developments. We had in mind, for example, large resource developments in

which the Canada Development Corporation could be a catalyst and in which could play a leading role. We thought too that there was a possible role for the Canada Development Corporation in the rationalization of industry because, after looking at some other countries we thought it likely that the government could play an active role in this connection—but only if it is prepared to put up some equity capital. Indeed there are virtues in that because it gives some increased leverage to the government.

As I said, we did not deal directly with implications of finance but I think that basically we are not thinking of the Canada Development Corporation as a place where small Canadian investors would necessarily want to put their money. We think the Canada Development Corporation, however, should attempt to engage in normal commercial practice. We see no reason that it could not engage in the kind of activities we are suggesting and be profitable. I suspect there is money to be made in big resource developments, and money to be made in rationalizing industry.

• 1145

Mr. Wahn: Would it be fair to say that you did not see it being used to prevent takeovers of Canadian companies or to buy back Canadian companies which have been taken over?

Professor Watkins: We did not see it explicitly and directly in those terms but it is clear that if you have a development corporation playing a leading role it is more probable perhaps, as in the case of major resource developments, that they will not fall completely under the control of foreign firms. In that sense there would be more Canadian ownership and Canadian participation.

We also did suggest in that context, with respect to financing, that there has been a great deal of interest in Canada, and properly so, in trying to substitute foreign debt for foreign equity, and in principle the Canada Development Corporation would be a means by which this might be done. That is, instead of foreign direct investment coming into resource industries one might imagine up to a point that the CDC provided that equity capital, and then the CDC could in part be financed, directly or indirectly, by the sale of foreign debt. The Australians, for example, have made some attempts to do this.

Mr. Wahn: Did you say that you did not see the Canada Development Corporation being

used as an investment fund for small Canadian investors?

Professor Watkins: I do not think that was its primary object.

Mr. Wahn: Was any research done to determine whether it would be desirable to continue existing legislative provisions which encouraged at least 25 per cent equity ownership by Canadians, in other words a minority position in Canadian enterprises?

Professor Watkins: Our proposal in that regard is that incentives of that nature be increased but that we do not insist on Canadian ownership—simply that the shares be made available, be listed as it were, on Canadian stock exchanges and then Canadians could participate. I am not quite sure what kind of research could be done on that kind of topic, but we certainly did look at some of the experience that has taken place under that legislation and we recognize that there are often problems for companies having to do with questions of timing and so on. We thought the nature of our proposal would make it a little easier for that to be done than has been the case, but we also felt that larger incentives would be required in order to get this.

Mr. Wahn: In your view was there any merit in having a specific percentage of stock ownership required as the price of obtaining incentives, for example the 25 per cent figure?

Professor Watkins: The per cent figure has been much talked about in Canada and I have no objection to that figure. The stock exchanges themselves tend to have rules as to how much of a company's shares must be made available to the public before it can be listed, and I believe this is typically in the order of 20 or 25 per cent.

Mr. Wahn: Was any work done to ascertain whether it would be desirable to develop a policy of buying back Canadian businesses which have fallen under foreign ownership, or do you have any views on that subject?

Professor Watkins: Again we have no specific objection to trying to do that, but we really wanted to recognize the fact that we are living in a world in which a great deal of the economic activity is dominated by giant multinational enterprise, and I do not think it is terribly realistic to imagine that you can really buy back in those kinds of cases. It is

not clear exactly what attempting to buy back would mean. At the same time we felt that while minority Canadian participation has some costs it also has some benefits, and on balance we thought the benefits outweighed the costs.

Mr. Wahn: Thank you very much, Mr. Chairman.

The Chairman: I would like to recognize Mr. Lambert next. Because we are not sitting this afternoon, I thought I would start off with some alternation between the party groups. However if nobody is particularly concerned about that, we will just proceed along.

• 1150

Mr. Lambert: Thank you, Mr. Chairman. I would like to start my questions.

In the second paragraph on page 4 Professor Watkins makes reference to American subsidiaries:

...when the chips are down these companies too often prove to be neither Canadian nor global but American.

Now what concrete evidence do you have of that position? I put the question because I have made queries of the Department of Trade and Commerce for specific instances of complaints they have received of Canadian subsidiaries of American firms refusing to do business on the export market on instructions from head office. They say that outside of one or two they have had no factual evidence.

Professor Watkins: Mr. Chairman, the major evidence I have on that is what has happened since our report was completed. In the last couple of months it surely has been clear that when American policy states that the subsidiaries of their companies should act in such a way as to improve the American balance of payments, these companies respond—indeed, overrespond—to these kinds of directives even though it is clear that the response is not in the Canadian interest.

Mr. Lambert: But is there any evidence of directives? This is the point I am getting at. It may be hinted that there is, but...

Professor Watkins: Directives from whom and to whom?

Mr. Lambert: From the American head office to the subsidiary in Canada with regard to an excessive repatriation, they might say.

On the other hand, it could be merely that the treasurers of companies, whether they are American subsidiaries, British subsidiaries or others, who know they have payments to make in the future, are buying foreign exchange short. This, of course, has caused an increase of Canadian dollars on the international market, thereby weakening the Canadian exchange position. Is this necessarily a behaviour pattern of an American company? Is this not more of an exchange problem, an exchange confidence problem?

Professor Watkins: I am not denying that that phenomena is at work, but I am impressed by the sequence of causation in which these directives are issued by the United States. The firms do respond as a result of the issuing of that directive by the United States. That directive is issued by the United States to its own companies within the United States. I would have thought on matters of major financial policy that head office would always send directives to its subsidiaries, and that the channels of communication must be fairly clear in these kinds of cases.

There is another set of problems that has to do with the filling of export orders by these firms, and again it is quite clear what the American law is in this regard. It is quite clear what American directives mean to their parent companies. It is quite clear that under American law the subsidiaries of these companies are fully subject to that law and there surely must be communication between the parent and the subsidiaries to that effect. It may not be necessary to issue them directives on specific matters; they may simply know in general how they are to behave.

• 1155

Mr. Lambert: But is there any factual evidence that this is the pattern? As a matter of fact, I queried Trade and Commerce officials about this last week and they said there is very little factual evidence of this. One may suspect that the Trading With the Enemy Act of the United States might influence them, but there is no evidence to indicate that an American parent under threat of prosecution in the United States has directed or refused to allow one of its Canadian subsidiaries to deal with some foreign country that is not acceptable to the United States.

Professor Watkins: I do not know how there can be any evidence if we are talking about communications taking place between a parent company and its wholly-owned sub-

siary. No one has access to that information. You would have to call company officials as witnesses in order to establish that. The Americans have a very elaborate set of rules and regulations. They certainly think they work. It would be rather odd if, in fact, they had no effect at all, and I admit it is very difficult to exactly establish what their effect is. We think if we set up this kind of government export trade agency its major initial benefit simply would be to give us some real information on this issue.

Mr. Lambert: How would they get this information?

Professor Watkins: Any state trading organization of a communist country would have the right to register its order with that agency. You would then know what the orders were and whether or not they were being filled. The agency would have follow-up procedures.

Mr. Lambert: Is there anything to suggest that they are not able to obtain the goods in Canada? This is the point. I wonder if a sort of man of straw has been set up here by some means, or perhaps I should say a man of selling?

Professor Watkins: We know there have been some cases that have come to the attention of the press. It is very difficult to know exactly what is involved in those cases because of the absence of any kind of judicial procedure by which we could establish what is happening. We can certainly suspect that there are more cases than are known by the public. But I think the question of how many cases there are is not really the important issue, because if the American rules really worked there would be no cases at all. If you had no cases, what would that show? It might simply show that the American rules are fully respected by all Canadian companies.

Mr. Lambert: I think that hypothesis is far too sweeping.

Professor Watkins: I am simply pointing out a logical possibility, though.

Mr. Lambert: We can speculate all we want, but to establish this sort of thing in this sort of business you have to proceed on something a little more factual.

Professor Watkins: The purpose of our agency, Mr. Chairman, is to establish that.

Mr. Faulkner: Mr. Chairman, I would invite Mr. Lambert to investigate the position—and this is only one example—of Quaker Oats in terms of selling flour to Cuba. I think a description of the arrangement which Dr. Watkins has given us is a pretty accurate one. We are not flogged with overt directives and public pronouncements. We are confronted with—"insidious" is too strong a word—a pattern of communication which is very subtle and effective. That is only one case, but I suspect when we are dealing with a matter of principle that that is probably significant.

Mr. Lambert: Then I would put it to you that upon direct examination the Trade and Commerce officials said there were no complaints.

Mr. McLean (Charlotte): Mr. Chairman, may I add a word to that? There have been occasions, as reported in our papers, when Canada has lost \$113 million on exchange. We know that one of the departments in the United States made it mandatory that the surplus cash the subsidiaries held in Canada must be repatriated to the United States and that, together with interest rates, brought on this exchange problem. On the one hand the United States takes it out of Canada and on the other hand they say, "Here is \$400 or \$500 million to stop it" but the damage has already been done. I suppose your report was written before the new controls came out?

Professor Watkins: The report was submitted on January 12, so it was virtually completed when the new controls came out on January 1. We were slowed down for a few days trying to think about how they would affect our report. They did not affect it substantially, partly because there was some reason to anticipate this kind of a ban.

• 1200

Mr. Lambert: I have no more questions at this time.

The Chairman: It appears to me that Mr. Lambert and some others present are asking questions, or making comments, on separate phases of this general issue. Mr. Lambert's question seemed to be directed towards loss of trading opportunities in eastern bloc countries because of alleged interference of American law; whereas, Mr. Faulkner provided a specific instance of, and Dr. McLean drew our attention to, the balance of payments effects, either direct or indirect, of

United States' guideline policies designed to control or correct that country's own problems.

Before recognizing either Mr. Saltsman or Mr. Cameron perhaps I will allow these two gentlemen to decide between themselves ...

Mr. Cameron (Nanaimo-Cowichan-The Islands): Let Mr. Saltsman go ahead.

The Chairman: Before recognizing Mr. Saltsman, I would like to ask you, Doctor Watkins, what significance you have placed upon the fact that the Secretary of Treasury of the United States, Mr. Henry H. Fowler, issued a statement, or wrote a letter to our Finance Minister, in which he specifically said that it was not expected that subsidiaries of United States parent firms in Canada would be supposed to speed up the patriation of profits or balances. What significance do you put upon that action of the Secretary of the Treasury of the United States?

Professor Watkins: The interpretation, Mr. Chairman, is obvious, that decisions in this regard are made in Washington, and when the Canadian government wishes to communicate with those portions of those firms that are American-owned it is most convenient to communicate with them through Washington.

Mr. Saltsman: Would Professor Watkins elaborate on what he talks about on page 9 where he says that he was disappointed with the reaction to his recommendation of a trade agency? Who has been the cause of that disappointment? Has it been the academic community, the public, the press, or the government?

Professor Watkins: I had in mind primarily the press. What I have been doing over the last few weeks has been, in part, looking at press reports. Generally, there seems to be a view that this agency is, as somebody put it, a non-starter. It seemed to me that the agency really deserved rather more serious discussion than it had so far received. Many of my academic colleagues seemed to have no objection to it.

Of course, the government has not endorsed our report and therefore, quite properly, does not have a policy on this specific proposal.

Mr. Saltsman: Are you in a position to tell the Committee what are the possibilities for acceptance of this recommendation by the government?

Professor Watkins: No, there is no way in which I could comment on that. The government has indicated its intent to give our report serious study.

Mr. Saltsman: What do you foresee as the consequences to Canada if the suggestions outlined in your report are not accepted?

Professor Watkins: Are we now discussing the possibility that none of the proposals would be accepted?

Mr. Saltsman: Or any of them; you have six major ones. Let us start with the export trade agency. Suppose this were not accepted. What do you see as the consequences for the future Canadian position?

• 1205

Professor Watkins: In part, as I have already suggested in response to another question, there is genuine uncertainty about how many orders are involved and, therefore, what the economic and political costs are. In that respect I would have to try to guess how many orders there are, and I really have no basis on which to make such a guess.

It seems to me, though, that if there is even a single case it does after all involve purely a political cost. It does mean that a question is raised about Canadian sovereignty and that there is a reduction in Canadian dependence. We certainly know the direction of the cost; we do not know the size of the cost.

Mr. Saltsman: Do you feel that an export drive by the Department of Trade and Commerce could possibly be frustrated because we do not have such an agency as the export trade agency, or because of these directives to United States companies?

Professor Watkins: I think the Minister of Trade and Commerce has already indicated on some occasions that it would be quite unacceptable for foreign-owned and foreign-controlled firms not to be responsive to Canadian export drives for any reason.

Mr. Saltsman: Has there been any indication of what action the Canadian government would take if those directives were not met?

Professor Watkins: I am sure they would make every effort to encourage these firms to obey Canadian law and Canadian policy.

What we were trying to say in our report was that we felt that we would really

strengthen the Canadian hand if we had these kinds of explicit laws and an international agency. I have no doubt at all that the Canadian government makes every attempt to have Canadian policy respected. We thought that the existence of such an agency would strengthen the hand of Canadian officials.

Mr. Saltzman: Were you able to evaluate how successful Canadian policy has been in ensuring that these export orders are met?

Professor Watkins: Not really; because, again, there is this very serious problem about how to get information on this phenomenon.

For example, it is quite possible that companies are approached with possible orders and simply show no interest from the very beginning. There would be no way of knowing at all in these kinds of cases. To put the other side of the case, there is also no way of knowing whether orders are not being placed that are not really genuine orders at all. We just do not know.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Would you agree, Professor Watkins, that American-owned companies would not be likely to engage in the active promotion of trade with the communist countries of the world?

Professor Watkins: They would not engage in it if it required their violating American law. There is a very elaborate set of laws which we try to summarize in this report. I think that is quite clear.

At the same time, again as we indicate in the report, there is an agreement, popularly known, I believe as the Eisenhower-Diefenbaker agreement, between Canada and the United States that outlines certain conditions under which the United States will look favourably on having these orders filled. Essentially, they say that they will look favourably on such orders if there is no Canadian-owned firm which could fill the order and if the order is of economic significance to Canada. Our agency really institutionalizes that agreement.

Mr. Saltzman: Did you consider incorporating your trading agency as one of the functions of the Canada Development Corporation; and that the Canada Development Corporation, as the holding company engaged in various activities, could also engage in trading, not necessarily only with the communist

countries, but might facilitate trading by smaller Canadian companies on their own behalf, thus establishing a very large trading agency that could do the job on behalf of various Canadian companies, as well as carrying out this purpose?

Professor Watkins: No, we did not consider that possibility. We were focusing on the Canada Development Corporation, as a development corporation, playing a certain role in a country in which there has been, and will continue to be, a heavy reliance on foreign capital. Under the terms of reference of the task force we did not want to become directly involved in the problem of trade promotion. We got involved in it only to the extent that was necessary because we thought there was a problem resulting from American ownership and the nature of American law. But we did not try in any comprehensive way to examine whether there should be marketing arrangements of the types that perhaps are being suggested.

• 1210

Mr. Saltzman: Now that the question has been put to you do you see this as a possible role for the Canada Development Corporation?

Professor Watkins: I must say that it does not strike me immediately as an obvious role for it because again primarily it is a development corporation and there is some virtue, I think, in having institutions which have quite clearly defined functions. I suspect they tend to perform better when they are given quite narrowly defined functions to fulfil, but I certainly think it is worth investigating that possibility. We did not investigate it.

Mr. Saltzman: Thank you.

The Chairman: I am now going to recognize Mr. Macdonald, followed by Mr. Cameron, Mr. Clermont, Mr. Flemming and Mr. Noël.

Mr. Macdonald (Rosedale): Professor Watkins, I should like to ask you some questions about extraterritoriality, particularly the extraterritorial application in Canada of foreign anti-trust laws. I notice that on page 409 of the Report, paragraph 3 (c), you recommend there should be the enactment of

...legislation to prohibit Canadian compliance with foreign anti-trust orders, decrees or judgments.

I take it the legislative scheme that you propose would really be a system of sanctions against the corporate officers of a Canadian subsidiary if they were found to have been obeying the foreign judgment in the antitrust field having extraterritorial effect.

Professor Watkins: Yes. We cite the case of the Netherlands in our report; there would be a Canadian law that would say Canadian firms could not obey foreign laws or decrees of foreign courts.

Now, as we understand the matter with respect to American anti-trust, if an American court issues an order and if it can be shown that in order to comply with that order the subsidiary of the firm could be put in a position where it would have to violate the law of the host country, then the American courts will relieve the American company and its subsidiary of the necessity of obeying its law. This, then, is to provide a means by which the American companies can go before the American courts and ask to be exempted from these regulations.

I am not a lawyer, but we had legal advice and it is my understanding that this would be effective, or is certainly worth exploring to see whether it could be made effective.

Mr. Macdonald (Rosedale): In other words, you are suggesting that since the administration of the American anti-trust law accepts the dictates of a non-American law within its own jurisdiction we should, in effect, put that law on our statute books, have a statutory declaration as to...

Professor Watkins: Yes, that is right. United States courts do recognize that it is improper to put their companies in a position where they must violate foreign law. We think the problem there has been in Canada is not the law.

Mr. Macdonald (Rosedale): You do not foresee the situation where the Canadian law is going to put the president of the subsidiary in jail, and under the Sherman Act they are going to put the president of the head office in jail and it is a question of which?

Professor Watkins: No; we do not anticipate that happening.

Mr. Macdonald (Rosedale): With regard to the export trade agency, do you anticipate its taking a more active trade promotion role rather than passive one? In other words, do you see it carrying out a role with regard to

the external marketing of products comparable to that of The Canadian Wheat Board in connection with grain?

Professor Watkins: We made a passing reference suggesting it might consider the possibility of a more active trade-promotion role, but we recognize that there are additional problems involved in that area. As I understand it, we already have large surpluses with most of these Eastern bloc countries and there may therefore be some problems involved in trying to promote exports.

Again, we did not try to look in a comprehensive way at the whole question of whether, faced with state trading by communist countries, we should engage in state trading when we deal with those countries. That seemed to go beyond our frame of reference.

• 1215

Mr. Macdonald (Rosedale): Apart altogether from the Communist countries, the state trading countries, you also have the problem I suspect with American subsidiaries—I have no direct evidence of this—that they are reluctant to compete in, let us say, foreign Western markets because they would be competing with either their parent or another subsidiary company. Would the proposed trade agency attempt to stimulate trade activity to meet that problem?

Professor Watkins: No. We are not saying that is not a problem, but our Export Trade Agency was intended to meet a very specific issue having to do with American extraterritoriality applying to a particular set of countries.

The other kind of problem you are raising is one that we would want to have studied and considered by the other special agency we suggested, which should deal directly with the problems of multinational enterprise.

Unquestionably a problem exists about market sharing agreements within these multinational enterprises. Really very little is known about this, particularly in Canada. We think this other special agency we have suggested should collect information on that. The kind of guiding principles questionnaire we now have should be expanded so it would attempt to collect information about these kinds of restrictive agreements taking place within and among multinational firms.

These are problems that cannot be solved by Canada anti-combines or anti-trust policy alone. There has to be a kind of harmoniza-

tional policy and co-operation between, in particular, Canadian and American officials and we also propose that should be done.

We think there is not genuine co-operation at present; American firms simply take actions, and we respond to them.

Mr. Macdonald (Rosedale): To move to the multinational corporation, there seems to be a tendency by such multinational corporations to seek to get 100 per cent; for example, the Ford of Canada situation a few years ago. Were you able to arrive at any conclusions concerning the guiding motive of over-all corporate management in going for 100 per cent instead of leaving the minority interest there which, if nothing else, would at least share the capital risk involved?

Professor Watkins: I am not a business man, and I say as well by way of introduction that Professor Hymer who is on the Task Force knows a good deal more about this particular topic than I. As I understand it, it seems very straight forward. These firms find minority shareholders a nuisance. Typically they also have branches and subsidiaries abroad because they own patents and copyrights, and from the way an economist looks at it they are earning rents on these monopoly advantages and quite properly, from their point of view, they do not wish to share those rents.

I think perhaps the main point is the administrative point. I imagine they say to themselves, "Well, we do not sell shares in California. We do not have a separate entity in California, we do not have shareholders of a California company, why should we have it in Canada?"

Mr. Macdonald (Rosedale): Do you think there is a motive that if it is a wholly-owned subsidiary they can engage in non arms-length transactions with regard to...

Professor Watkins: Yes, there is no problem then. Particularly in the Canadian case they are simply private companies and almost nothing is known about what they are doing.

Mr. Macdonald (Rosedale): You did not really go into the question of whether our taxation system now provides sufficient protection on non arm's-length fields between Canada and the United States?

Professor Watkins: We did not go into that. As I indicated in my previous comments, a general feeling we had and also from talking

with ministers and officials, was that in view of the work of the Royal Commission on Taxation we ought not get involved in any substantial way in the taxation problem.

Again, we think this other special agency we suggested to deal with multinational enterprise should undertake as one of the very first things, perhaps, a quite careful examination of our procedures with respect to the taxation of multinational enterprises. There is no suggestion by the Task Force that this is not being properly done at present. Our feeling is that we really do not know.

• 1220

We do know that in recent years, faced with their balance of payment difficulties, American officials have begun to police the transactions of multinational enterprise much more carefully than they have in the past because it does matter to them whether taxes are paid outside or within the United States. And we think Canada in particular, since we have so much of this American investment, ought to do at least some examination on this side to make sure we are continuing to get our share of these taxes that are being paid.

Mr. Macdonald (Rosedale): A final question, Mr. Chairman: With respect to the disclosure of financial records one of the objections made by the public companies is that they have to disclose their financial terms while the private companies do not. Let us take, for example, the eastern Canadian sugar refineries. One is foreign-owned and one is publicly listed on the Canadian Stock Exchange. One is a private company owned by a very closely held group in Montreal. Would you recommend the abolition of the private corporations status under Canadian corporate law?

Professor Watkins: In our Report we say that all companies of any significant size would have to disclose. Certainly a point often made at present by companies now disclosing is that this puts them at an unfair advantage. The answer, of course, is not that they should not disclose, but that everyone else of any size should, in fact, be disclosing as well.

Mr. Macdonald (Rosedale): I am not sure Mr. Eaton is going to like that.

Professor Watkins: The additional point I should make of course, Mr. Chairman, is that there are some private Canadian companies but if you look at the large companies you will find that 75 to 80 per cent of the large private companies in Canada—at least 75 to

80 per cent in our estimate attempted to bias it so that we would not exaggerate the point—is foreign-owned. So there are some private Canadian companies but there are not very many.

Mr. Macdonald (Rosedale): Thank you.

The Chairman: I have Mr. Cameron followed by Mr. Clermont.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Professor Watkins, I should like you to elaborate on the statement you made on page 5 of your brief where you say:

Canada must come to terms with the multinational corporation as a fact of life.

I presume you have in mind those corporations that are mainly American in origin, or the parent company is American based, but which has subsidiaries in various countries in the world. It is not a case of mixed ownership particularly; rather the mixed legal nationality of these various companies that you have in mind when you speak about the national corporations?

Professor Watkins: A multinational corporation means in one level nothing more than a firm that operates in more than one country.

Mr. Cameron (Nanaimo-Cowichan-The Islands): When you say that we must come to terms with them, what do you have in mind? What sort of things do you think we should be doing in the face of this?

Professor Watkins: Basically, Mr. Chairman, some of the recommendations we made such as our special agency to deal with multinational enterprise; in other words, that we recognize what foreign ownership is about in Canada is not simply that we need capital from abroad; that what we are dealing with are these giant companies and we then have to articulate a set of policies that recognizes two things, that there are large companies and many of these large companies are foreign-based.

Mr. Cameron (Nanaimo-Cowichan-The Islands): But in answer to Mr. Macdonald you said that you had not really considered the problem he brought up of the control by an American parent company over the sales policies of a Canadian subsidiary vis-à-vis the sales policies of another American-owned company in another country.

Professor Watkins: Mr. Chairman, my previous answer had to do only with the context of what we were then discussing, trade with Eastern bloc or Communist countries. We certainly did try to look at the general question of the implications of multinationality of these enterprises and certainly were conscious of the fact that they have market-sharing agreements, that they have freedom to shift operations from one country to another, that there are various kinds of restrictions that may be placed on particular subsidiaries, but not much is known about this. Again the guiding principles questionnaire could attempt to collect some of these kinds of information. It is very hard to get it if you are on short notice.

● 1225

Mr. Cameron (Nanaimo-Cowichan-The Islands): Your suggestion is for an agency that would include that agency's dealing with that aspect of it as well as the American government policy that impedes the trading policies of Canadian subsidiaries with Communist countries?

Professor Watkins: We propose two agencies. One is a government export trade agency to deal with these specific problems of American control over certain kinds of trade with certain Communist countries. The other agency is a broad agency to co-ordinate policy in general with respect to multinational enterprise, to play a policy-making and co-ordinating role.

Mr. Cameron (Nanaimo-Cowichan-The Islands): To turn to another matter, Mr. Chairman, in paragraph 2 on page 22 of your Report you suggest that the requirements for capital for investment may be met from domestic sources in times when the Canadian economy is in a somewhat depressed condition. Can you elaborate a bit on that?

Professor Watkins: Yes. This is an argument that suggests when you have unemployment and an unused capacity in the economy you can expand the economy simply by making fuller use of these domestic inputs. If, for example, there is unused plant capacity, it is not clear why it is necessary to bring in foreign capital to build new plants.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Would you consider that is the situation today with a 6.1 per cent general unemployment rate and very much higher in parts of the country?

Professor Watkins: I think a 6.1 per cent unemployment rate is a high rate, yes.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Does this constitute a situation in which you suggest that these investment requirements can be satisfied from domestic sources?

Professor Watkins: Up to a point; there is an additional problem about the effects of this on prices. If one puts that aside, as it were, the answer would be, yes, if the Canadian government or the Canadian people are going to tolerate more inflation, but I do not have a judgment on that.

Mr. Cameron (Nanaimo-Cowichan-The Islands): On page 347 of your Report, you had some remarks with regard to Canadian investment abroad. I am not quite sure when this particular section was written. I gather from what I can find out that investment abroad has been increasing quite rapidly, within recent months, even.

Professor Watkins: I have no information about that. We did not make any real attempt to look at data going beyond that provided by the Dominion Bureau of Statistics and the most recent date in that case is 1964. We did not, as it were, get too involved in the particular problems of the last couple of years, and it may well be that is so; I simply do not know.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Would you consider that a rapid increase in the outflow of capital from Canada to the United States may be one of the complicating factors we have today, not only with regard to our exchange position but also with regard to the development of the Canadian economy from domestic sources?

Professor Watkins: If I understand the question, Mr. Chairman, you would have to distinguish between different kinds of capital that would be flowing abroad.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I had in mind principally capital that is being invested in equities in the United States now?

Professor Watkins: Yes, there are heavy outflows. I do not know exactly what is happening at the moment, but over the past few years as we know there have been heavy outflows resulting from the activities in particular of the mutual funds' and the pension funds' purchasing American equities.

This is, of course, a completely different phenomenon than the direct investment abroad by Canadians. This is investment which has no implications at all for control. One of the things by which I was very impressed is the extent to which the expectation is that unless something is done this flow is going to increase rather substantially. It seemed to me then that the question of the so-called shortage of capital in Canada somehow has to be re-examined just a little because there is perhaps some evidence that the problem is not so much the inadequate demand for equities as the inadequate supply of equities.

We did not see any particular benefit that comes to Canada as a whole from Canadian investments in American equities. There is no special growth inducement for Canada that comes from that. If, in fact, it were possible in some way to divert these purchases of American equities by Canadian institutions into the Canada Development Corporation or into minority shareholdings of Canadian companies, we thought that would be a good thing, and we did not see any particular cost to Canada of doing that.

• 1230

There is the normal point made, as we know, against minority ownership by Canadians in multinational enterprises; this is costly for Canada. It is costly if these funds are simply going into minority holdings of American enterprises? We did not think so.

Mr. Cameron (Nanaimo-Cowichan-The Islands): What steps do you consider should be taken to encourage this?

Professor Watkins: Our proposal was really a very modest one, that we would try on the first round at least to see if the problem could simply be solved by having more shares issued in Canada. We did not propose to do anything more than that until we saw if that could be made to work.

Mr. Cameron (Nanaimo-Cowichan-The Islands): That is, to provide more equities?

Professor Watkins: Yes. I think we mention in the report there have been suggestions that we place some restrictions on these kinds of purchases, and we felt that was not warranted until we had considered doing it by simply increasing the supply of equities. That method had not yet been given a fair test in Canada.

Mr. Cameron (Nanaimo-Cowichan-The Islands): That brings me to the next question I wanted to ask. What is your concept of the role the Canada Development Corporation should play? Do you envisage the Canada Development Corporation will be, in effect, an economic institute of government with possibly government funds in addition to public funds?

Professor Watkins: I think we basically thought of the Canada Development Corporation in the way the government appeared to have been thinking about it in recent years.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Could you tell us what that is, Professor Watkins?

Professor Watkins: My impression is that it would be a quasi-independent body; it would not be a Crown corporation proper. I have no particular knowledge of exactly how this would be achieved.

Mr. Cameron (Nanaimo-Cowichan-The Islands): And it would not be subject to government control? It would not be used as an instrument of government policy?

Professor Watkins: In some sense it would certainly be an entity created by the government, and the government would participate in the financing, so there would certainly be government control of some kind involved. I think the expectation has been that an organization or a corporation should be created which would draw on the very considerable financial expertise of the private financial sector of this country.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Can you see it playing a role in the rationalization of Canadian industry which you have spoken of?

Professor Watkins: Yes, we thought it could conceivably do this. Alternatively, you could set up a separate Crown corporation if it seemed desirable to do it that way. I believe in the case of the British it is simply a Crown corporation. Again, we did not want to proliferate the institutions, and it seemed to us that it is a possible role for the Canada Development Corporation.

I think I should say in general about the Canada Development Corporation that we would expect the legislation would be of a fairly general nature. It may not be desirable in the legislation for the CDC, if it comes

forth, to actually specify any functions of this nature. We thought it would be useful if we indicated some of the things we thought the Canada Development Corporation might do.

• 1235

Mr. Cameron (Nanaimo-Cowichan-The Islands): Do you have other proposals with regard to the rationalization of Canadian industry to deal with the situation you mention of too many and too small Canadian producing firms?

Professor Watkins: Yes, we suggest the Department of Industry should continue to play what we think has been a quite active and useful role in trying to rationalize Canadian industry; that Canada should continue, as it has in the past, to participate in any possible multilateral tariff reductions, which would provide a spur to rationalization, and to see if we can resolve the possible problem—I do not really think we know whether it is a problem set—of American-owned firms finding that they could not participate because they might make their parents liable to antitrust prosecution under American law.

Mr. Cameron (Nanaimo-Cowichan-The Islands): What do you propose be done in a case like that?

Professor Watkins: We specifically proposed that Canadian law should be amended to make it quite clear that Canadian firms, without respect to nationality of ownership, must not obey foreign laws and foreign court decrees.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Would that be sufficient to ensure compliance?

Professor Watkins: If it turned out not to be sufficient, then at that point more would have to be done.

Mr. Cameron (Nanaimo-Cowichan-The Islands): What more?

Professor Watkins: I am not sure if I want to speculate on something that has not happened yet. I am prepared to wait and see whether it would not be workable under our suggestions.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I gather that you consider the Department of Trade and Industry should play a part in conjunction with your suggestion of revision of the Combines Investigation Act,

which would remove the barriers for merging or for arrangements to specialize between competing companies. You are envisaging the Department of Trade and Commerce actively entering that field to promote such...

The Chairman: Pardon me, Mr. Cameron, I think Dr. Watkins was referring to the Department of Industry.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes, the Department of Industry, I am sorry.

Professor Watkins: Yes, there would remain the problem, the answer to which I simply do not know whether an organization such as the Canada Development Corporation could really engage in rationalization programs when these involve a complicated set of problems having to do with tariff reduction...

The Chairman: And technology as well.

Professor Watkins: ... and so on. In that event I presume we would have to consider a separate Crown corporation to do that.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Do you consider your suggestion of an agency to deal with the question of trade with Communist countries, in view of American law, could also include the possibility of such an agency acting as a sales agent for a group of companies that was prepared, under the aegis of the Department of Industry, to specialize in their operations in order to compete in foreign trade?

Professor Watkins: I think, Mr. Chairman, we had a very narrow conception of what this export trade agency should be, and we did not want to become involved in this admittedly very important set of problems concerning state trade. We did not think this fell under our terms of reference.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Once or twice you have mentioned the desirability of encouraging greater Canadian participation in the ownership of Canadian industry. I would like your views on whether this is really an important question if your recommendations for control were to be implemented.

Professor Watkins: When you say Canadian ownership I am not sure whether you mean majority or minority ownership?

Mr. Cameron (Nanaimo-Cowichan-The Islands): You just speak of Canadian participa-

tion, that is the point. What level of participation do you mean.

Professor Watkins: I think typically, when we talk about Canadian participation, we are trying to deal with this question of minority ownership.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Do you think that is of importance or do you think it may divert Canadian capital from development processes?

Professor Watkins: We suggest, to the extent that Canadian capital is now being invested in the equities of United States companies in the United States, it would not be costly to be so diverted. But we also say at one point in our report that if we had to choose between minority ownership and the Canada Development Corporation, we would choose the Canada Development Corporation. We make an estimate that minority ownership—and we picked 25 per cent because it is a much-discussed figure—if it were to take place across the board for the larger foreign-owned companies would, as a minimum, be something like \$3½ billion or \$4½ billion. I am not sure anyone is prepared to put that much money into the Canada Development Corporation, but I guess we would if we had the choice.

Mr. Cameron (Nanaimo-Cowichan-The Islands): When you say "if we had the choice", do you mean—

Professor Watkins: Therefore I think the Task Force does not feel so strongly about minority ownership that it is prepared to advocate any price; it wants to know the alternative. If the alternative is Canadian ownership of American equities, then we say why not minority ownership in Canada? If the alternative is the Canada Development Corporation, we would opt for the Canada Development Corporation.

Mr. Cameron (Nanaimo-Cowichan-The Islands): I am still not quite clear as to the role you envisage for the Canada Development Corporation. Is it just to be an investment fund?

Professor Watkins: I think the analogy we have in mind is a large holding company. It would then perhaps specifically engage in the kinds of activities that private closed-end funds do. They not only provide capital, they also provide various kinds of management skills and advice.

Mr. Cameron (Nanaimo-Cowichan-The Islands): But you envisage a purely private institution.

The Chairman: Do you have a supplementary question, Mr. More?

Mr. More (Regina City): If Mr. Cameron does not mind.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Yes.

Mr. More (Regina City): If that is its only purpose, do we not have enough of that sort of Canadian enterprise now? Why have a governmental agency do what already exists in the private sector?

Professor Watkins: We certainly do have some private closed-end funds and we do in fact suggest that some steps might be taken to try to improve the position of those funds, but nevertheless we thought there was a case to be made for more of these. One which could be potentially very large indeed would be the Canada Development Corporation, and there would be more government participation or control—whatever term you wish to use—if it were the Canada Development Corporation.

Mr. Cameron (Nanaimo-Cowichan-The Islands): In what form, Professor? That is my point. What form of participation or control did you have in mind?

Professor Watkins: One possibility could be that the government would name the board of directors. There are various ways in which this could be done. We did not—perhaps wrongly—try to involve ourselves in the specific kinds of problems with respect to exactly how this could be created.

The Chairman: I would suggest to Mr. Cameron and to Mr. More that possibly we could pursue this further when Mr. Watkins comes back. Perhaps we can now go on to the next person on the list.

[Translation]

I now give the floor to Mr. Clermont.

Mr. Clermont: Mr. Chairman, do we have the simultaneous translation?

The Chairman: I believe so. I saw an interpreter here before the start of the session and I believe she is in the booth. You may continue Mr. Clermont. I believe that professor Watkins is ready to answer your questions.

Mr. Clermont: Professor, on page 9 of the summary which you presented to this Committee, you say that you are disappointed with the public reception of the report presented by your study group. I believe that this Committee will not disappoint you this morning because there are nearly twenty members of Parliament present here. The only other time when they were so numerous was when the directors of the Mercantile Bank appeared as witnesses. I think you will be satisfied with the reception of the Committee this morning.

● 1245

Professor, your study group was composed of eight economists and some research workers. On the last page of your brief, page 15, you name several of the research workers or analysts and economists who prepared the work for your study group.

Did you receive any work from French-speaking economists, analysts or research workers?

[English]

Professor Watkins: Mr. Chairman, two members of the Task Force who worked for us were from universities in Quebec.

[Translation]

Mr. Clermont: Professor, I know that in your group there were two French-speaking persons. But among those who did research for your study group, or among the analysts, were there any who were French-speaking?

[English]

Professor Watkins: No. There were none.

[Translation]

Mr. Clermont: Did the research carried out by your study group deal also with the methods used by other countries, such as France, Great Britain or Japan, to control incoming or outgoing foreign investments or did your research deal strictly with investments coming into Canada?

[English]

Professor Watkins: I am not sure I understand the question.

[Translation]

The Chairman: I think that Mr. Clermont wants to know if you limited your research strictly to the Canadian situation or if you also compared these problems with those of

other countries. I believe that you did do this type of work. Could you give Mr. Clermont and the members of our Committee some further information concerning this aspect of your work?

Mr. Clermont: For example, professor, to invest in France, you need the authorization of a certain agency.

[English]

Professor Watkins: Yes, we did some work on this topic. Professor Hymer, who is a member of the Task Force, visited France, the United Kingdom and Japan. He then did additional research on these and other countries, and he wrote a background paper for us on national policies in other countries. His work is incorporated in our report.

Some of our other studies dealing with specific aspects of foreign ownership also discussed other countries. For example, Professor Safarian wrote a background paper for us on the performance of firms, and we also looked at the literature that was available, particularly on Australian firms, British firms and any other literature we could find. Most private studies have been done largely for the British and the Australian cases, but I think some work has also been done on the French case.

[Translation]

Mr. Clermont: Could certain methods used in these countries be adapted to Canada?

[English]

Professor Watkins: We indicate some of the procedures that are used by these other countries. In most cases they are foreign exchange controls and as a by-product of these foreign exchange controls, various kinds of policing of the activities of multi-national enterprises are possible. We tried to suggest this special agency to deal with multi-national enterprises, being a Canadian analogue, as it were, of these kinds of policies. We are not advocating that we have foreign exchange controls and that we get our information and controls in that way, but there should be an agency which tries in a Canadian context to do some of the kinds of things that are done by other countries.

[Translation]

Mr. Clermont: In one of your recommendations, you suggest the establishment of an export agency. Do you not believe professor that, presently, the department of Trade and Commerce can fulfill this function?

[English]

Professor Watkins: Certainly the Department of Trade and Commerce is very, very active in this area and we are not attempting in our report to offer any criticism of what has been done in the past. Rather, we felt as I said before, that the Canadian position, particularly in negotiations with the Americans on these kinds of problems, was bargained from a relatively weak base, because we do not have any explicit Canadian law that deals with this and we do not have any particular agency that directly deals with this.

• 1250

[Translation]

Mr. Clermont: The reason for my question is that, in certain sectors, there are complaints of duplication. You have mentioned the efforts made by the Department of Industry to intensify the participation of Canadian industries in Canada. When this department was established, the Government was accused of duplication. The claim was that the Department of Trade and Commerce could do this work.

[English]

Professor Watkins: We are not trying to advocate duplication. In so far as the Department of Trade and Commerce has personnel who are already dealing directly with this problem of the restrictions on export trade then that function would, as it were, be transferred to this new agency. We are not advocating doing twice something that is already being done.

Mr. Lewis: As a supplementary question, you may well have in mind that the agency would be connected with, or be a part of the Ministry of Trade and Commerce

Professor Watkins: It seems to me logical that it should be.

[Translation]

Mr. Clermont: You know very well, Mr. Lewis, that criticism has already been made concerning the new Department of Industry. It was said that this would increase the personnel. The same observation could be made concerning this agency, because the creation of this agency would also increase the personnel.

One last question in order to allow other members to ask theirs. In your recommendations, you suggest the improvement of compe-

tition in Canada between certain companies. You speak of tariffs. According to the opinion of your study group, should Canada liberalize its tariffs even further, even after the signing of the Kennedy agreements last year?

[English]

Professor Watkins: We are quite conscious of the fact that there has just been a multilateral liberalization of the Task Force and we certainly realize that it is not likely that in the near future there is much possibility for further multilateral tariff reduction. At the same time we think that to the extent there is any potential, Canada should fully participate.

Mr. Clermont: I said before, Mr. Chairman, that it was my last question; but I will ask another one in English. No doubt your Task Force still thinks that foreign funds are welcome in Canada and that you believe the article that appeared in a special edition of the *Toronto Daily Star* on February 16, which said:

Without foreign funds—less steak, more burgers...

Professor Watkins: I agree. That is a very good way of putting it.

Mr. Clermont: Thank you.

The Chairman: Now Mr. Flemming, followed by Mr. Noël. I suggest to the Committee that we remain a few minutes beyond our usual adjournment time to allow these two members of our Committee at least an opportunity to present their most important questions. Since we may not find ourselves in a position to resume next week, we want to give them an opportunity to put these questions on the record.

Mr. Flemming: Mr. Chairman, my first inquiry perhaps is directed more to you and to the Committee than it is to Professor Watkins. Professor Watkins in his report suggests that certain people be invited to appear before the Committee. In view of the very great importance of export trade to the Atlantic provinces and the very fact that the Atlantic provinces, generally speaking, have development corporations or some similar entity dealing with the very thing that is recommended in the report on a national level, would you consider that the Committee might properly have representations from the provincial governments of the Atlantic provinces and also from the universities? I am thinking about the professors of economics in various

half a dozen universities of the Atlantic provinces and of Professor Smith, the head of the Economics Department. Perhaps you do not want to resolve this here and now.

• 1255

The Chairman: I could comment in this way. I think that all Professor Watkins was trying to do in his statement was to draw our attention to the individuals connected with the Task Force who might be helpful to us. I do not think he was attempting to suggest that there were not many other people in universities, in government, in business, who would not be able to give us some very important information.

I think your suggestion, Mr. Flemming, is very constructive; and I hope that once we conclude our hearings, at which time we will have listened to the views of people connected with the Task Force, we will then go on to have the widest possible expression of views from the private sector, from government where this is practicable, and from universities. This is really the reason that I felt the Committee might want to start off with Professor Watkins and his colleagues, so that the views of the Task Force supplementing and expanding on their report would be available to people who would be wanting to prepare and present briefs.

As I think I indicated, I feel that even though the House may be sitting, we should allow an interval between the sessions at which we hear from people connected with the Task Force and the time we hear from others so that they will have a chance to respond to the testimony of Professor Watkins and his colleagues in their briefs.

I think your suggestion is very constructive, and certainly I hope that through your own contacts you may want to make sure that people in the Atlantic provinces are aware of our hearings. I know the press has been most kind so far in bringing this to the attention of the country and no doubt others in the Atlantic provinces and other parts of the country will be taking similar steps as well.

Mr. Flemming: Thank you, Mr. Chairman. I only suggested the ones that occurred to me at the moment. No doubt there are a good many others.

My questions to Professor Watkins, I am afraid, could not possibly be completed in three minutes. I am sure his comments in regard to the report do bring to mind many questions which one would naturally wish to

pose to him. I am thinking at the moment of a Canadian company in the export trade and I know I will be pardoned if my mind runs to wood and to wood products. I am thinking of a company that is selling its goods to very good advantage in an export market and yet, according to the suggestion of the Committee, I believe, if there came a request from a Communist country, they would almost be obliged to change over and to start shipping to a Communist country even though they had a very satisfactory market and were selling their goods to very good advantage. Maybe I misinterpreted it and if so I am quite prepared to listen.

Professor Watkins: No, Mr. Chairman, we would certainly not expect a company in a situation like that to make any change. The point would be that if a company could show that it was not selling the order for some reason other than American law, then that would be acceptable.

The Chairman: I think Mr. Flemming's point is an important one. If this agency were created, it would accept reasons based on commercial or economic factors.

Professor Watkins: Indeed we say in the report that the only case in which action would be taken would be where no reason could be shown other than the fact that they were restricted by American law.

Mr. Flemming: The wood-producing business, to my certain knowledge, is sometimes asked the questions: "Why do you confine yourself to a certain market?" and, "Why do you not ship to another market?" The immediate answer, of course, is that we know all about what we are doing and do not know anything about unexplored fields and that we are quite happy. I think this applies to a good many companies who are in similar positions.

Professor Watkins: And that should be regarded as a perfectly acceptable answer.

• 1300

Mr. Flemming: Actually, Mr. Chairman, it is now 1 o'clock and I do not want to impose on the Committee if it might be understood at some future date, and I hope not this afternoon...

The Chairman: No, we have already agreed we will not sit this afternoon.

Mr. Flemming: ...that I could have a bit more of Professor Watkins' time.

The Chairman: We will certainly put you at the head of the list. Perhaps we should ask Mr. Noël if he has several questions which he would like to put on the record at this time, or if he would prefer to wait until our next sitting.

[Translation]

What do you want to do, Mr. Noël?

Mr. Noël: This will not take long, sir.

The Chairman: We could perhaps give Mr. Noël a chance to ask his questions for...

Mr. Noël: Two minutes.

Mr. Comtois: Agreed.

The Chairman: You may continue, Mr. Noël.

[English]

Mr. Flemming: I do not want to interfere with my friend Mr. Noël, but I wonder if I could have a little bit of preference on Professor Watkins' time at the next committee meeting.

The Chairman: Oh, yes. It was my suggestion that your name be first on the list when we resume with Professor Watkins because it is apparent that you have a broader range of questions to pose than Mr. Noël at this particular time.

[Translation]

Mr. Noël: Professor, you have spoken of "six majors issues". ... and you have found a remedy for each, that is to say, you have suggested certain remedies for each problem. The first problem

[English]

...multinational co-operation is a fact of life, suggests a remedy.

[Translation]

The second problem is that of the

[English]

"shocking absence of information about the activities of large corporations"

[Translation]

and you propose a solution for this. Among these solutions, you suggest a study of the "Labour Unions Returns Act".

Here is my question. In my opinion, Canada is on the verge of being colonized again but in a different way. We will be colonized industrially, financially, mentally, psychologically

and in many other ways. And soon, "if we do not keep our eyes peeled"...

...If we do not pay attention, if we do not take the necessary measures, we will soon be politically colonised. There is a factor, a third factor and it concerns the third solution that you suggest: the "labour unions"; I have always been taught in political economy that a country could possess raw materials, natural resources and the capital to develop them as well as the necessary manpower. In Canada, we have the natural resources but we do not have the capital and we are not in control of our manpower. In your brief, have you explored the various ways in which we could gain control of our manpower?

In fact, if our manpower and our capital do not belong to us, we will not be in control of our raw materials and our natural resources for long.

We will then be colonised not only from an economic point of view, but also from a financial and finally a political point of view.

That was my first question. Here is my second question. Did you find any other remedies, such as specialization, for example, or succession duties, which force the heads of business to sell out because they have to pay succession duties or "put into cash our assets".

[English]

If we do not keep our eyes peeled.

[Translation]

Have you studied this in your brief?

• 1305

[English]

Professor Watkins: I will answer the second question first, Mr. Chairman: In that case I think we are talking about the phenomena of the take over of established Canadian companies. I think, speaking candidly, that one of the most serious deficiencies in the research which the Task Force did, largely because of the constraint of time, was the lack of specific in-depth studies of this take over process. I hope this research will be done by someone. Of course, if we had this special agency, that is one of the things it should do. I do not think we really know very much about why take overs take place.

On the first point, Mr. Chairman, certainly the Task Force recognizes that one of the reasons there is a good deal of foreign owner-

ship in Canada is because there are various kinds of deficiencies with respect to Canadian institutions and Canadian inputs. In particular, as we know from the work of the Economic Council, there is a problem about the quality of Canadian labour as compared to American labour, and this is most strikingly apparent in the case of entrepreneurship or business management. It is very difficult to put forward concrete proposals about this matter. We suggest the federal government should do everything it can to improve the quality of Canadian manpower, including management. It is difficult to be concrete about this, but we certainly recognize that it is a real problem.

Mr. Noël: Nothing is said about succession or estate duties.

Professor Watkins: Again, we steered clear of the tax problem because of the Royal Commission on Taxation.

Mr. Noël: Thank you.

[Translation]

The Chairman: Thank you, Mr. Noël.

[English]

I suggest, if Professor Watkins can return, that we schedule a meeting for next Tuesday morning.

Professor Watkins: Could I persuade you to change it to Wednesday?

The Chairman: We have two problems. I have been consulting with Professor Watkins during the meeting and I assume his students are clamouring for his attention. I do not know if he would like me to tell you, but he was incapacitated with an appendicitis operation which created some difficulty in his schedule over the past two weeks. Therefore we have to try and harmonize the various demands on his time. We are not certain whether we are going to be sitting later in the week, and—

Professor Watkins: Do not misunderstand me, Mr. Chairman. I very much want to cooperate in any way I can with the Committee, but I have not seen my students for about three weeks because of my illness, and—

The Chairman: You could see them on Wednesday.

Professor Watkins: Unfortunately I do most of my lecturing on Tuesday. At the same

time, I am sure they will recognize the greater need.

Mr. Gilbert: What about Monday, Mr. Chairman?

The Chairman: Mr. Lambert you were going to make a suggestion.

Mr. Lambert: I was going to suggest that you will not be available, I will not be available, and some other members of the Committee will not be available.

The Chairman: That is right. Some of us are going to be involved in the annual meeting of the Canada U.S. Interparliamentary Group.

Mr. Clermont: There is also a meeting the following week.

The Chairman: Yes, during the following week and on the 26th, of course, we are going to meet with the French Finance Committee. So, this will create a problem whether or not the House is sitting. I would suggest to the Committee that because Mr. Noël has opened up some very interesting areas of discussion, and Mr. Flemming has some important ques-

tions, that if it were possible for Professor Watkins to come back on Tuesday morning that we would excuse him as soon as possible and perhaps he could call his students together in the evening.

Mr. Cameron (Nanaimo-Cowichan-The Islands): Bring the students with you.

Professor Watkins: I have about 150 of them.

Mr. Cameron (Nanaimo-Cowichan-The Islands): You could combine the two; you could lecture us as well as the students.

Professor Watkins: No, I will come on Tuesday morning Mr. Chairman. I was simply indicating my preference.

The Chairman: We usually try to be very accommodating, but the Committee is labouring under certain scheduling difficulties beyond its control.

Professor Watkins, we thank you for your presentation and we look forward to seeing you next Tuesday, assuming the Committee is able to meet.

The meeting is adjourned.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament
1967-68

STANDING COMMITTEE

ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. HERB GRAY

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 28

TUESDAY, MARCH 19, 1968

RESPECTING

Report of the Task Force on the Structure of
Canadian Industry

WITNESS:

Dr. Melville H. Watkins, Associate Professor of Economics,
University of Toronto.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON
FINANCE, TRADE AND ECONOMIC AFFAIRS

Chairman: Mr. Herb Gray

Vice-Chairman: Mr. Gaston Clermont

and Messrs.

Ballard,
Cameron (*Nanaimo-
Cowichan-The
Islands*),
Cantin,
Comtois,
Flemming,
Hales,
Hees,

Irvine,
Laflamme,
Lambert,
Latulippe,
Lind,
Macdonald (*Rosedale*),
Mackasey,
McLean (*Charlotte*),
Monteith,

More (*Regina City*),
Noël,
*Saltsman
Stafford,
Thompson,
Tremblay (*Richelieu-
Vercheres*),
Wahn.

Dorothy F. Ballantine,
Clerk of the Committee.

* Replaced Mr. Gilbert March 13, 1968.

ORDER OF REFERENCE

WEDNESDAY, March 13, 1968.

Ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Gilbert on the Standing Committee on Finance, Trade and Economic Affairs.

Attest:

ALISTAIR FRASER,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

TUESDAY, March 19, 1968.

(37)

The Standing Committee on Finance, Trade and Economic Affairs met at 11.10 a.m. this day, the Chairman, Mr. Gray, presiding.

Members present: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clermont, Comtois, Flemming, Gray, Lambert, Lind, Macdonald (*Rosedale*), McLean (*Charlotte*), More (*Regina City*), Noël, Saltsman, Wahn—(13).

Also present: Mr. Gilbert.

In attendance: Mr. Melville H. Watkins, Associate Professor of Economics, University of Toronto and Chairman of the Task Force on the Structure of Canadian Industry.

The Committee resumed consideration of the Report of the Task Force on the Structure of Canadian Industry.

At the request of the Chairman, Mr. Wahn took the Chair.

On motion of Mr. Flemming, seconded by Mr. Macdonald (*Rosedale*),

Resolved,—That reasonable living and actual travel expenses be paid to Dr. Melville H. Watkins, who has been called to appear before the Committee.

The Committee resumed questioning of Dr. Watkins on the Report of the Task Force.

At 12.20 p.m. the Chairman resumed the Chair.

The questioning having been concluded, the Chairman thanked Dr. Watkins who then withdrew, subject to recall.

At 1.07 p.m. the Committee adjourned to the call of the Chair.

Dorothy F. Ballantine,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday March 19, 1968

• 1109

The Chairman: Gentlemen I think I am in a position to call the meeting to order on an official basis. Before proceeding further may I say, unfortunately it is necessary for both our Vice-Chairman, Mr. Gaston Clermont and me to attend a meeting of the Labour Committee which is now drafting a report on the subject matter of a very contentious bill it has been studying. I would like to express my apologies to Dr. Watkins for not being present to hear the balance of his discussion, and I would like to invite Ian Wahn to take the Chair.

• 1110

The Acting Chairman (Mr. Wahn): Thank you gentlemen for not objecting too strenuously to my taking the chair. Before we proceed with the questioning of Dr. Watkins, perhaps we could authorize the payment of his travelling expenses. Will someone move and second that reasonable living and actual travelling expenses be paid to Dr. Melville H. Watkins who has been called to appear before the Committee.

Mr. Flemming: I so move.

Mr. Macdonald (Rosedale): I second the motion.

Motion agreed to.

At the last meeting we were proceeding with the questioning of Dr. Watkins and I believe Mr. Flemming was next on our list.

Mr. Flemming: I would like to refer Dr. Watkins to the last few words on page 1.

The Task Force was instructed to prepare a report for the government on foreign ownership and the structure on industry, to do such research as it deemed necessary, and to complete its work as quickly as it thought feasible.

My question is, did the committee proceed with this work with the general idea they

were going to make a report on the situation that existed with respect to foreign ownership, for their ideas of what should exist?

Professor Melville H. Watkins (Chairman of the Task Force on the Structure of Canadian Industry): By the "committee" do you mean the ministerial committee?

Mr. Flemming: I mean the Task Force.

Professor Watkins: By the Task Force? The Task Force thought it had a dual function which was to examine the situation as it actually existed, to look at existing research, and to supplement it where possible within the time available. It was further agreed with the ministerial committee that the Task Force should attempt to make proposals for consideration by the government or for discussion by the public.

Mr. Flemming: Proposals towards what end?

Professor Watkins: Proposals in the sense that if the Task Force reached the conclusion there were issues on which it felt the government might consider doing certain things, the Task Force should endeavour to indicate what the government might consider doing.

Mr. Flemming: Did the Task Force undertake its duty with the idea that there were some definite weaknesses about the general structure and the participation of so-called foreign ownership that needed to be corrected?

Professor Watkins: I do not think the Task Force as a collective entity could be said to have had preconceived views in that regard. Presumably each of the individuals joining the Task Force was doing so partly because he thought there were possible policy changes that might be considered. However, I think it is typical of economists, perhaps in their arrogance, to believe that this is true of most areas, that there are possibilities of changes in policy. I do not think a Task Force as a collective entity could be said to have had preconceived views.

Mr. Flemming: I just happened to be quite impressed with the general idea that we, as an undeveloped country, must, of necessity, have foreign participation in our development. Now, if that premise is correct, then I think the question arises, which I hope that the Task Force took it into consideration, of where you should endeavour to secure the necessary finance to develop those resources. It seems to me we have to acknowledge that there has to be a degree of foreign ownership. Would you like to comment on that?

• 1115

Professor Watkins: Yes, I think the report of the Task Force bears out fully that we certainly do not think there is any virtue in taking polar stands. The issue is not one of no foreign investment, or no foreign control or total foreign control; the question is at what point to be in that spectrum. I think it is correct to say the tenor of our report is one in which we accept, by and large, the existing level of foreign ownership and control and we do not advocate any serious attempt to undo that. Indeed, we argue more positively that these giant multinational corporations, typically American-based, are here to stay, and because of that the Canadian people and the Canadian government should consider policies which accept that reality, and try to, as we put it, maximize the benefits and minimize the costs of both an economic and a political nature that arise from that fact. Therefore, by and large, we accept the existing level of foreign ownership and control.

We do suggest that it might be desirable to consider the possibility of adopting policies that might in the long run reduce the level of foreign ownership and control in the Canadian economy. We do not believe this could happen automatically. If one goes back in Canadian history, one finds there have been many periods in the past in which it has been predicted that foreign ownership and control would be reduced in the future, that the economy would be sufficiently mature that it would not be necessary.

Mr. Macdonald (Rosedale): When you speak of reducing the level, I presume it is a relative level.

Professor Watkins: Yes indeed, absolutely a relative level. Then we talk about the possibilities for institutions like the Canada Development Corporation, which we thought was the most promising of the immediate

steps that could be taken, but its impact would be long run.

Mr. Flemming: Before we discuss that point, I would like to ask another question. Having decided that the amount or the percentage, if you like, of foreign ownership of our industries might very properly be lessened to some extent, then I presume the Task Force had in mind increasing Canadian participation to that same extent?

Professor Watkins: Oh, yes indeed. When we say that foreign ownership and control might in the long run be lessened we mean Canadian ownership and control would, in the long run, be increased and it would be the increased capacity of Canadians to participate in ownership and control that would make it possible to get by with less foreign ownership and control. One would not start out to try consciously to reduce the level of foreign ownership and control.

Mr. Flemming: My next question has to do with the setting up of corporations that you mentioned. To undertake such a responsibility I think a corporation would have to be somewhat gigantic in nature. Personally, I think it should not be entered into until such time as it is felt there is no corporate body in Canada, under regulation, that could undertake the same responsibility. I would like to have your comment on this, Dr. Watkins, because I do not think there is going to be anything magic about setting up some corporation to do a certain thing. I do not think the fact that you set it up and give it a highfalutin name is going to add anything to it. I think that you have to use the ability and the experience of Canadians in bringing about the general objective which, of course, is the development of the country, obviously. Therefore, I see no reason why you should nail your flag to the principle of the Canada Development Corporation. Surely there must be, within the scope of our free enterprise system, something that could accomplish the same thing without such a duplication of effort, because I think you have to use the same experience and the same ability in this development as you would in connection with any other equally large development of the country.

• 1120

Professor Watkins: I think, Mr. Chairman, to a considerable extent the Task Force would favour these developments taking place in the private sector and we are aware of the fact that there are some holding com-

panies in existence. I think there are disagreements about how successful some of these have been, but we do make a couple of specific recommendations in the Report which would aid the closed-end funds in their operation.

I think, nevertheless, it still seemed to us that after a century or so of relying on the private sector to cope with this problem of rising levels of foreign ownership and control we should, perhaps, consider some more imaginative and specific steps than we have taken in the past. I think that in the Canadian context something like the Canada Development Corporation may seem large but it is not large if you compare it with General Motors or a number of these other giant multinational firms that exist. No such corporation has emerged autonomously in Canada and I would be loathe to predict that it will happen automatically.

I fully expect the efficiency of the private sector to increase and we make some recommendations that are designed to help in that endeavour, such as tariff reductions, change in the anti-combines law, and so forth. I think we have to realize that as we make these changes, it is likely that other countries also will be improving the quality of their inputs. Therefore, it is very hard to make any absolute gain in this kind of race, and it seemed to us that perhaps even the very success of these giant aggregations of capital in the United States argues for attempting to produce a kind of Canadian analogue of that and, if it does not emerge spontaneously, then it would have to be an organization of such type as the Canada Development Corporation which, in some sense, receives some impetus from the public sector, from the government.

Mr. Flemming: I find that in actual practice—and this does not apply to any particular individual; I think it applies to us all—we get a bit obsessed sometimes with the general idea and we almost get obsessed with the general name; we are going to put a certain label on something and we consider—and this is no reflection on anyone—that the very fact that we put that label on is going to give them some miraculous powers.

Actually, in practice and experience we find that does not happen and so, Dr. Watkins, we find in our part of our country that we have operations by foreign controlled companies; we have one very large pulp and paper industry which I think is controlled by Belgian capital, but I must say I hear no complaint about it; they pay well for

their raw material; they pay well for their help; they are good corporate citizens.

It seems to me we should not start with the general idea that everything in the line of foreign ownership is bound to be detrimental to the country. I am sure the general object of your study was to determine what might be done. I happen to be one who believes that these large companies from time to time should place a percentage of their equity stock for sale to Canadians. I think in their own interest they should do it, to say nothing of the interest of the country in which they are located which, in this case, is our country.

Getting back to the whole question of development, I am rather concerned that we are going to acknowledge that we have no organization nor are we capable of setting up an organization using the ability and experience of people that have had a lot of experience in the development of the various phases of our general economy; that we ignore that entirely and set up something new. This is the point and I believe, Dr. Watkins, you answered this a few minutes ago by saying that you did explore the whole realm of private sector but felt, as the result of your study, that you were prepared to recommend a development corporation rather than following through on the private sector angle. Is that right?

• 1125

Professor Watkins: That is correct, yes. At the same time we do make recommendations, as I suggested, that are intended to improve the efficiency of the private sector itself. It seemed to us, particularly on the basis of the work done by the Economic Council, that there are deficiencies in the Canadian educational system as a whole and particularly in the education of top management, and it is difficult to know exactly what the federal government is able to do in this area. It does have manpower training programs and these should be utilized as much as possible to try to correct that deficiency because, in some sense, foreign ownership flows into a vacuum.

Mr. Flemming: I do not want to name any corporation particularly but I read the other day that the Montreal Trust and the Investors Syndicate Limited have joined forces to a certain extent, on a financial basis anyway, and this came under the general heading of a gigantic affair. I am not citing them as an instance of people who could undertake something similar but from the very fact that they attached such an adjective to their activities

it seemed to me there must be other angles that could be explored from the general point of view of the development of the country.

I do not favour public ownership, but I give everybody the right to differ with me if they wish and that is no reason why they would not. The gentleman on my right is one of those who have experience. Dr. McLean has had a lot of experience and has built something that did not exist before. I do not think that should just be thrown into discard. I think we should try to harness all of these particular phases, abilities and experiences, and so on, for the general good of the country.

Professor Watkins: I fully agree and I think we do not have to look at these things as either/or propositions, that if we rely on the private sector we cannot have the CDC or, if we have the CDC it means we are not relying on the private sector. We can do both.

Mr. Flemming: Mr. Chairman, perhaps I have monopolized Dr. Watkins as much as I should for the moment. Perhaps I shall have a chance to ask some more questions later. I do not want to appear to be trying to monopolize the time of the Committee or the knowledge of foreign ownership that Dr. Watkins must have by virtue of this study that he and his associates have undertaken. I am willing to yield for the moment. I have some other questions but I will reserve them.

The Acting Chairman (Mr. Wahn): Thank you very much, Mr. Flemming. We may come back to you. I have on my list Dr. McLean, Mr. Lambert, Mr. Gilbert and Mr. MacDonald, which is a nice variety. I call on Dr. McLean.

Mr. McLean (Charlotte): Dr. Watkins, in your Report, I do not think you mentioned anything about money as a controlling factor in our economy. It seems to me, looking at what is happening in the world today, that it has much to do with it. With another nation controlling 59 per cent of the International Monetary Fund which practically governs the monetary world at the present time that is very important. I do not see the danger from foreign risk capital coming in here because so long as we retain our sovereignty we can control that risk capital. But if we lose our sovereignty, which I think we have at the present time, we cannot control that risk capital and I think that is very important.

• 1130

Mr. Martin, Jr., the Chairman of the Federal Reserve System in the United States, stated emphatically in London that gold is not a commodity, it is a monetary measure. Now, if it is a monetary measure we have lost control of our sovereignty because we signed up in the International Monetary Fund that we would pay only \$35 American for gold at any time and the United States controls 59 per cent of the International Monetary Fund.

Now, the United States says to Canada, your reserves can only go up to a certain amount and then that is it; you have had it. And they say, you can only pay so much for your money. Now, if gold is the basis of credit, then you can pay only so much for your basis of credit. You must go now to something else. You must go to paper. It seems to me that we are losing control there and it is much more important than foreign investment coming in, especially risk capital. I see the risk, and that is borrowing in the United States all the time.

In wartime we did not borrow from the United States. We cleaned up the United States. We cleaned up everybody. We did not owe anything to anybody and we were able to give England a billion and a quarter and we could finance ourselves. But in peacetime we cannot seem to do it, and we are into this international money scheme. Money goes around the world and we have high interest rates.

And why do we have the high interest rates? The United States says, "Well, we have to keep the money in our country because if it flows out the gold dollars flow out and we have to redeem them so we will have high interest rates". Then Canada goes down there to borrow and they have high interest rates. It seems to me it is this money situation that would ruin us rather than the foreign risk capital coming in because we have laws here so long as we retain our sovereignty. But when we do not we get retaliation and the seven that gathered in Washington were afraid of retaliation; they could not speak their minds.

Consider Germany; when the United States owed Germany \$500 million they brought the Germans in and said, "Well, now you will take our bonds. That is what you will get; otherwise we will retaliate". So they had to accept \$500 million in five-year, 5-per-cent bonds which were not redeemable; they had to hold them.

They do that to Germany and they say to their investors, "You cannot come to Canada. You cannot come here and invest in Canadian stocks; we are going to tax you". But we do not say anything about it. We let our people such as the mutual funds take millions in Canadian money down there. It seems to me it is this money question rather than foreign investment; if we had control of our own money system then we would have control of our country and I do not think we have at the present time. I think that is more serious than foreign risk capital coming in here.

Professor Watkins: I do not think to say that there is a need for policies with respect to foreign ownership implies that foreign ownership is the only problem or even necessarily that it is the highest priority problem. It is certainly true that a striking example of our interdependence is our position within the international financial community and our membership in these new international organizations that have emerged since the war and I am sure it is true that Canada, as a relatively small country, is constrained by its membership in these.

• 1135

But I think the Canadian position has always been that these constraints are well worth accepting, given the hope for greater economic stability in the world that should result. Even the events of recent weeks can be read in more than one way. They can be read as suggesting that new arrangements now exist which reduce the probability of serious catastrophe; that even when the key currency of the United States is under attack there are mechanisms by which other countries can indicate their willingness to co-operate in working out both short-run and long-run arrangements. I am impressed by these and on the whole I think—and I say "I" because the Task Force did not really get involved in this area—that the benefits that flow to us from these are pretty substantial in terms of the over-all stability of the world economy, and as a major world trader that is very important to us.

On the other issue of foreign ownership, recognizing that it is not the only issue or even the key issue, I think, we were asked to investigate it and we felt it was important enough to investigate. The question of sovereignty is something we try to deal with in the Report and we do suggest that certainly in general Canadian sovereignty is not being

affected adversely by foreign ownership. But there are some specific examples that have to do with the extra-territorial application of United States' law and policy where there have been some problems, and we felt there were specific steps that could be taken, laws that could be passed, that would strengthen Canadian sovereignty in the future in this connection.

The Chairman: If I may just interject, Dr. McLean, Professor Watkins is here to answer questions basically upon the Report of Foreign Ownership and the Structure of Canadian Industry. We are all vitally interested in the financial crisis, but...

Mr. McLean (Charlotte): Foreign control is just as important as foreign ownership.

The Chairman: If the questions could be related to the general subject of foreign ownership and foreign control that would be helpful.

Mr. McLean (Charlotte): I think at the present time we have foreign control.

Professor Watkins: I should say that this is just a semantic point and not meant to be critical at all. Of course, the term "foreign control" as used in our Report has a very narrow and perhaps misleading meaning. It simply means the exercise of control by foreign owners through subsidiaries, either directly by those owners or indirectly by the government of the country in which the head office is located. There are many other kinds of foreign control and unfortunately this term has been narrowed down to mean simply this parent subsidiary relationship, this foreign direct investment relationship.

The Chairman: Mr. Lambert?

Mr. Lambert: First of all I would say that perhaps some of this question of control as against domination arises as a result of restrictions that are placed upon the scope of your activities because of your interdependent relationship. I think perhaps what was bothering Dr. McLean when he talked about control, and so forth, is that you are not free to act as you darn well feel at all times. Today in ordinary corporate or private individual society you are not free to act as you feel. In other words, you are not subject to the state of your digestion only, which some people feel is the ultimate, shall we say, in this sort of modern-day philosophy, but what I am coming back to is the Canada Development Corporation. Obviously in the

studies of the degree of ownership and the degree of capital imports into Canada, both for development purposes and for take-over, you were likely astounded by the magnitude of the sums of money involved. Do you think that the CDC, in a realistic way, would have a scope of operation that would be meaningful either to reverse the trend or even to take up the slack that would be occasioned by the entry of the CDC?

Professor Watkins: It was the general intention that the CDC would not, in any sense, be there totally to replace inflows of foreign capital, partly for the very obvious reason that there are many benefits that would result from the operations of multinational companies in an operation into which the CDC did not in any clear way fit; so that there is no expectation that inflows of foreign capital would cease and that the Canada Development Corporation would have to replace these.

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The question really is, then, what are the possible sources of funds on which the CDC could draw? Basically, it would draw domestically on the over-all level of Canadian savings. We have probably the second highest level of income in the world and we therefore probably have the second highest level of savings in the world. The CDC, in a marginal way, can tap these.

We tried to suggest in the report that there might be some possibility, through the activities of the government, for the CDC to be able, in effect, to have some of its financing through the sale of bonds to foreigners. That is a possibility that could be considered.

We also tried to suggest that, as was previously referred to there is this very substantial and significant outflow of capital now taking place from Canada, particularly by the mutual funds, to buy American equities. This suggests that up to a point at least the problem in Canada is not capital scarcity. It may be possible, by indirect routes, to siphon some of those funds into Canadian investments. That is, if shares were available in the CDC, were attractively priced and the CDC were successful then presumably there would be some willingness on the part of Canadian institutions and individuals to divert some of their funds from purchases of American growth securities into purchases of CDC shares. We hope the market would do that. If that does not happen then the CDC will simply not grow.

We are not suggesting that anything more should be done than to insert it into the market and let it compete for funds with prevailing alternative uses of those funds.

Mr. Lamberi: Right away, then, how do you compete for funds but by the rate of return? The CDC is not going to be able to pay returns to investors out of thin air. It will have to have revenues of its own from the operations in which it invests, either as a business and a going concern, or as a development corporation.

I suggest to you that the reason for the interest that Canadian mutual funds have in the United States is merely that there is a greater rate of return on American corporations than there is in Canada. We are tending towards starting to kill the goose that lays the golden egg by restrictions and by heavier taxation on corporations.

Professor Watkins: You are certainly right that Canadians buy American shares because they have a high rate of return but I think the point always is: Relative to what? What alternatives do they have? They are interested in buying various kinds of growth stocks. I think these rates of return we are talking about are often capital gains rather than current earnings.

What are the alternatives for a Canadian investor? There are many industries—and office equipment is often cited as an important example—in which there are no Canadian shares available. What we are trying to suggest in the report is that we endeavour to create alternative investment opportunities for Canadians. Of these alternatives we suggest that one is the creation of the CDC itself, with the CDC selling shares; and a second is that we consider giving, through the tax system, stronger incentives than we have in the past to encourage large Canadian companies, both subsidiaries and domestically-controlled—large private companies, in particular—to make their shares available in Canada.

Again, we are only saying that the Canadian investor should have these options. It seems to me that at the moment the Canadian investor does not have many options. He does not have a broad range of stocks of Canadian companies that he can buy in Canada. Therefore, when we talk about a high rate of return on American capital we are always talking on the basis of relative to what?

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Mr. Lambert: It is relative to Canadian returns. These options will not be created unless you engage in some very restrictive directions; as for instance, that you block Canadian mutual funds from investing in American securities. I do not care how you do it, but that you effectively block them; or that you direct investment away from savings accounts, or government bonds, or what have you; that you direct savings. I suggest to you that the Canadian economy and the Canadian people are not ready for that.

Professor Watkins: But we in the Task Force are not ready for it either. We did not advocate that. First, we were suggesting merely that we explore the possibility of the viability of these alternatives. That raises the other question whether, five years from now, if we put these into effect, they are going to work. If they have not we would have to reappraise our situation.

Mr. Saltsman: Mr. Chairman, may I be permitted to put a supplementary?

Mr. Lambert: I have done enough questioning. I will make way for someone else.

The Chairman: On my list I have Mr. Gilbert, Mr. Macdonald, Mr. More and Mr. Saltsman.

Mr. Gilbert: Mr. Chairman, I may be going over some ground that has already been covered but I would like to direct Dr. Watkins' attention to the Canada Development Corporation in the field of financing and in the field of objectives.

Did the Task Force contemplate that the financing would be: (a) government financing and (b) private funds and also public funds? Is that the general picture of the financial structure of the Canada Development Corporation?

Professor Watkins: I think I said at the last meeting, Mr. Chairman, that, rightly or wrongly, the Task Force did not get involved in any detailed consideration of the financing of the Canada Development Corporation. We certainly expect that the government will engage in that financing, but I think the general expectation has been that it would be in a minority position on it and that shares would be offered to Canadians. At the last meeting I said something in some other context that may have been a bit misleading. I think I implied that these shares might not be

suitable for purchase by small investors. On thinking about it later it was not clear to me why I should have said that. I do not think that is a major source of funds for a development corporation—it is wrong to imagine that it is—but there is no reason for such participation being impossible. The people who buy them should not think they are buying fixed indebtedness of some kind, in which they are entitled to a regular return, with all the problems that are involved in the possibility of small investors not being sufficiently sophisticated. Presumably certain devices could be worked out by which floor prices could be put under the shares of the CDC, and so on. I am by no means an expert in these kinds of topics, but I suspect that such things could be done to provide some protection for small investors. Basically, however, these should be regarded as an equity investment, with the risks that accompany equity investment.

Mr. Gilbert: You said last week that there would be two objectives: (1) the development of major resources, and (2) the rationalization of Canadian industry. Perhaps you would develop the idea of the development of major resources. Just how would the Canada Development Corporation develop major resources?

Professor Watkins: It is difficult to talk about that, either in general or in particular, but...

Mr. Gilbert: For example, how would they do the financing of a major resource and get into production and sale and so forth?

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Professor Watkins: In the case of most resource industries I think the prevailing view is that there are two major reasons that one often gets foreign control. The first of these reasons is the large capital input that is required. There is perhaps a tendency to exaggerate that point because there are alternative ways of raising capital. I think most economists feel that in most cases, although it would vary with each case, the key input that the foreigner brings when he develops your resources is an assured market for those resources. For example, American steel companies provide a guaranteed market under a long-term contract for iron ore. If you look at the world's primary products you will note that they are substantially developed in that way. There is something else that is also queer in respect of many resource industries; each of the foreign firms does not necessarily

or typically set up its own subsidiary abroad; they tend to do it through the creation of a consortium.

What we are really suggesting is that the Canada Development Corporation, in so far as it is involved in the resource field, could play a role in the creation of a consortium of this kind. The role could be a secondary role in which its primary interest is just to participate in the ownership of the equity; it would provide capital, hoping to get a share. In so far as there are problems that surround the proper taxation of the profit of these firms it sometimes is useful to have alternative ways of getting access to these benefits, and that would be a way of doing it. In some cases the CDC, if it existed, could perhaps play a more positive role of providing some leadership and actually trying to organize these consortia. One would not anticipate in any such case that the Canada Development Corporation or some such entity would ever have majority control of these developments. It would participate with the foreigner, the foreigner would provide some capital, but above all what the foreigner would provide is the assured market which the CDC itself cannot provide. So it is largely a case of participation and in some cases of leadership.

I myself would emphasize to a considerable extent the participation problem because I think there is a serious question whether Canadians derive sufficient benefits from these resource developments. Economists generally agree that the most effective way to get those benefits is through taxation. There are many problems surrounding the proper taxation of the profits in most national enterprises, and there are additional problems in Canada because in some cases resource industries have, for a variety of reasons, rightly or wrongly been given a special kind of tax treatment. And particularly if that special tax treatment is to remain, then we should consider more than we have in the past, the alternative of minority ownership as a way of getting access to these benefits.

Mr. Gilbert: What about rationalization of Canadian industry. Are you referring to secondary industry?

Professor Watkins: Yes. The presumption here is that we actually make a very sharp distinction between so-called primary manufacturing and secondary manufacturing. On the whole we have every reason to believe that the primary manufacturing industry is efficient in Canada; the issue is whether we as

Canadians are getting enough benefits from it. The problem of secondary manufacturing, as we know from a number of studies, is that it is not clearly sufficiently efficient. In many cases there seem to be too many firms. Tariff reduction would certainly help facilitate that reduction in the number of firms, but we are doubtful whether that is a sufficient solution to the problem. We suspect that in some cases what would be required are mergers of existing firms; again, you need someone to play a leadership role in that and we suggest the possibility of the CDC doing it.

In the report we made it clear that we were only mentioning resource industries and rationalization as examples of things CDC would do. We did not wish to limit the generality of its operations and if legislation were being drafted for the CDC it is not clear to me what one would in fact want to specify in particular chapters. Basically if one takes the position that one wants to draw on the resources of the private sector, the financial community, then as academic economists we ought not to prejudge very much what they would regard as appropriate. These are just general suggestions.

Mr. Gilbert: Doctor, why do you rule out majority control by the Canada Development Corporation? You have the example of Japan; they have this type of development and yet they retain majority control.

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Professor Watkins: The Japanese do in some cases but not in all. Some giant multinational corporations have only entered Japan when they were given majority control. I do not think that we are necessarily ruling out the possibility of majority control by the CDC but we would not have thought that that was necessary to achieve most of its objectives, although in some cases it might be. I think if one looks at this is a partial analogy only but it is of some use—the closed-end funds themselves, which make both large capital and a typically large entrepreneurial input into firms in which they invest, they do not typically have majority control although sometimes they do.

Mr. Gilbert: You are indicating that the approach may be to penetrate or to participate in these resource industries. Do you contemplate the necessity of buying back certain resource industries that would be difficult to penetrate or to participate in?

Professor Watkins: There may well be cases in which that is possible in which it is known for example that the foreign parent is willing to consider divesting itself of its Canadian subsidiary. In such a special case one would not rule out the possibility of the CDC trying to do something about making this possible, but we did not think it was desirable to elevate buy-back into a major objective of the CDC. One sometimes hears of individual cases where it is believed that the parent would be willing to consider selling the subsidiary. These seem to me to be probably unusual cases because typically parents do not think that way. If they are not even willing to permit a minority of shareholders they are not likely to permit a majority of shareholders. But if this possibility were to exist there would be no objection obviously to the CDC doing something about that.

Mr. Gilbert: Is there a possibility of retaliation by foreign-owned companies with regard to penetration and participation by the Canada Development Corporation and, if so, did the task force take that into account?

Professor Watkins: I am not quite sure what the scenario is here—that the establishment of the CDC will lead to what?

Mr. Gilbert: Would lead to withdrawal of American investment or restriction in the development of the subsidiary.

Professor Watkins: I think in the nature of the case it is impossible to make anything but guesses as to whether that could happen. I must say I myself do not see any particular reason that it should happen. In general we are told that companies, including foreign-based ones, are interested either in maximizing their profits or in holding their market share—which is sometimes the same thing and sometimes not—and to the extent that they remain profitable in Canada and can hold some share of the market I presume they would stay. Some profit is always to be regarded as desirable. I do not see why the CDC should really offer any direct challenge to their profitability.

Mr. Gilbert: I have just one other question but on another matter, the export trade agency, which was a recommendation by the task force. Do you see that export trade agency operating in a restricted area where foreign companies refuse to sell or trade with communist countries, or do you see it as a developing agency which would be able to market

Canadian goods much like our Canadian Wheat Board does.

Professor Watkins: Our conception of it was only in the restricted and narrow sense, basically because of course we were looking at foreign ownership. We only got into this area of "state" marketing of some kind in order to cope with what we thought was a specific cost resulting from foreign ownership. So our proposal is designed to meet a very specific problem, and we did not want to get involved in broader questions of other things that such agencies might do. I had no objection of course to consideration being given to such an agency playing a broader role. I suppose there is always a danger that people opposed to such a general role might prevent the creation of the agency if it is put in such general terms and might in principle go along with it if they knew it was meant to meet a very specific problem.

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Mr. Gilbert: Thank you Doctor, thank you, Mr. Chairman.

The Acting Chairman (Mr. Wahn): Doctor Watkins very kindly said that if necessary, he will stay over for our meeting this afternoon, although he had planned to go back immediately after lunch. We are tentatively planning to finish by 1 o'clock, but perhaps we should see just how we can get along. We can continue with our meeting this afternoon if it is desirable. I have on my list Mr. Macdonald, followed by Mr. More, Mr. Saltsman and Mr. Lind. Mr. Macdonald?

Mr. Macdonald (Rosedale): Dr. Watkins, I would like to address questions in both the primary and the secondary industry areas. With regard to the primary area, relating to something you said just a minute ago, I notice in the report you make the point that foreign investment in resource development may on occasion produce really little additional benefit for Canada, if it is not a highly labour-intensive, extractive operation, if it uses a lot of machinery which is imported, if the sales are made principally to the foreign parent at a price set by the foreign parent, and if any profit produced from the Canadian operation is exported by way of dividends. Then the net accretion to Canada, although it may well turn some of the Canadian shield into a factory, in terms of potential is not very great. I gather from the answers you gave to Mr. Saltsman or Mr. Gilbert that you see the Canada Development Corporation

really giving Canada a better return than she is getting—I will not name any industries—in certain extractive mining industries.

Professor Watkins: That is quite right. I think you put it very well. From the viewpoint of an economist, what countries like Canada are supplying to these resource industries is the resource itself with the land. Whether there is any return to land depends on whether you can prevent other factors from appropriating all of those returns. If you give the ownership of the resources to those who supply the capital then they may well be able to extract virtually all of the benefits that result. There are problems about how they price the resources, because transactions between the subsidiary and the parent are not in any sense market transactions in many resources. There simply is no market price. It is impossible to say how this does compare with the market price, most of the resource moves within the corporate entities themselves and there is no market. As I suggested one possible way of getting at this is Canadian ownership. The minority ownership proposal also can be supported on that ground. In that case, I presume, minority ownership can either take place by having these companies offer their shares on the market to Canadians or can take place in effect by the CDC being an intermediary in that transaction.

Mr. Macdonald (Rosedale): There is evidence from other countries that the mere participation of government as a partner in the consortium is not a “disincentive” to the foreign investor coming in, provided the assets are economically feasible.

Professor Watkins: I think that is true. The case usually cited is that of the oil industry, where 10 or 20 years ago the kinds of profit-sharing agreements that some of the Middle East countries now have, would have been regarded as absolutely out of the question. They could never have gotten away with it. But in fact they have gotten away with it. What is at issue again is what economists call rents, the problem is about who gets those rents. From the viewpoint of the foreigner, some rent is better than no rent and so he is willing to stay even if his rents are very high as they are in oil. Now they are not necessarily high in all Canadian resource industries, I do not wish to imply that. But where they are, there is room for the application of more power by Canadians to extract more of those rents for Canadians.

• 1205

Mr. Macdonald (Rosedale): Moving on to secondary manufacturing, I take it you are probably familiar with the studies or observations of Mr. Edward F. Denison in the Denison Report. Correct me if I misunderstand it, but the analysis he made was of the spectacular growth in American industry in the first half of this century, dividing it into two quarters. In the first and second quarter of the century the actual inputs of manpower and, to a degree, capital were relatively less but it was the prominence of education, management training, and research and development which really produced the big growth.

Professor Watkins: That is correct, yes.

Mr. Macdonald (Rosedale): So from the standpoint of development, the route to greater Canadian control of our secondary manufacturing may well lie through better education, better management training, and better research and development.

Professor Watkins: I hesitate, as an academic, to say that the sole solution is education. That may sound like special pleading, but Mr. Denison is not in fact an academic economist and that is what he has argued. We know that the kinds of methods Mr. Denison has applied to the United States and now to Europe have been applied to Canada by the Economic Council of Canada and they appear to show more or less similar things about the importance of improving the educational system. I think similarly the expectation is that there is a fairly high pay-off from research and development, although there is evidence there that perhaps as important as the absolute level of research and development is the question of how efficient the links are between industrial research, government research and university research. I think we suggest in our report that there seems to be a problem about the efficiency of these links in Canada, at least compared to the United States and Britain where much more research is done internally within the government, which does not perhaps so clearly link itself up with industrial requirements.

Mr. Macdonald (Rosedale): You mentioned in passing, as a national planner, as someone on the federal scene, the problem of giving importance to education as a factor in national economic performance, and the fact that it lies outside the jurisdiction of the federal government. It seems to me one of the weaknesses facing efforts by the federal govern-

ment to try and improve in this area is the fact that we do not have jurisdiction in the educational field.

Professor Watkins: Obviously that is true and I suppose it is also true that trying to have a national policy with respect to the whole issue of foreign ownership is complicated by the uncertainties of how much jurisdiction the federal government in fact has. Our Task Force itself, being made up only of economists, by and large, tried to take the view that we should set out those policies which seemed appropriate to us, as economists, and not be unduly concerned about whether the federal government could do things. In some areas, particularly disclosure, where it clearly is no longer sufficient just to say one is in favour of it, but in fact, see exactly how it could be done, we did seek legal advice in order that we could make some very concrete proposals in this area.

Mr. Macdonald (Rosedale): You laid heavy stress on the fact that foreign investment not only brings actual capital, it also brings the foreign technology which may be advanced and also imported management. Is it not a fact that when you import these latter two factors you are always leaving yourself one step behind the country from which you have imported them?

Professor Watkins: I think that is true but it is also true of capital, because if you import too much capital you may not make the effort to develop your own institutions in the capital market. Partly what we are saying is very trite, but it is partly a very powerful point. I think, what economists now call the "learning by doing argument." If somebody else does everything for you, you will not learn how to do this yourself. Management seems to be very much learning by doing. The creation of many kinds of institutions such as capital market institutions sort of fits this kind of learning by doing model. If you rely too heavily on the importation of foreign skills, one of the long-run costs internally is that you will become a little lethargic, slacken off a little bit and give up making as much effort as might be made.

Mr. Macdonald (Rosedale): Thank you.

• 1210

Mr. More (Regina City): Thank you, Mr. Chairman, some of my questions have been answered, but the CDC is the point of greatest interest to me. As I recall, Dr. Watkins, you

suggested that there was a lack of equities available in Canada which was part of our problem and part of the urge to invest abroad also was due to the lack of equities on the Canadian scene. How do you think the CDC could help this situation?

Professor Watkins: In a direct sense, of course, it would offer its shares to the Canadian public.

Mr. More (Regina City): Yes, but they can only sell them if the shares have some returnable value. Shares of the CDC have to depend on earnings from somewhere to be of any value to the investors. Where is that value going to come from?

Professor Watkins: If the CDC participates in profitable enterprises, it will earn these revenues.

Mr. More (Regina City): Do Canadians now not have an opportunity through the many funds and opportunities available to gain their portion of these profits themselves?

Professor Watkins: Yes, to some extent they do through both closed-end funds and mutual funds. The mutual funds, though, are substantially diverting their portfolios into American securities. The point is we are not saying it should be either private institutions or the CDC, we are saying it should be both. There is room for improvement across a broad front.

Mr. More (Regina City): I cannot see the incentive for the investor to go to CDC when established equities are available for him to participate in. You hear a great deal of talk about a lack of interest in risk investment by Canadians, generally accounting for our large savings. How will the CDC change that?

Professor Watkins: I think the prevailing view, certainly from the studies of the Carter Commission, is that there is really not that much evidence that Canadians are not willing to take risks in their investments. The very large purchases of insurance by Canadians relative to Americans—this is a comparison that is always being made—appear to result largely because of the differences in the social security systems of the United States and Canada. If you allow for that plus the problem of the supply of equities in Canada there does not seem to be any evidence that Canadians are not prepared to buy equities. Indeed, what has been so striking in the last few years and what has become a whole new

dimension in this debate about some aspects of foreign ownership is this very rapid growth of mutual funds and pension funds and their willingness to invest in equities including stocks which are only going to pay off in the long run, which have low yields at the moment but are expected to be growth stocks. All we are saying is that we should offer Canadians more alternatives than they have. We do not see the problem as an inadequate demand for equities; we see the problem as a definitely inadequate supply of these equities.

The other point is, of course, if the CDC has to go into the market, as it were, to sell its shares, we can have no better guarantee that it will only grow if it is entitled to grow. If it does not perform well, then there will not be much to talk about and it will not become very large.

Mr. More (Regina City): I take it from what you have said that you envisage the CDC as being a factor in resource development projects, part of a consortium. Resources are under provincial control are they not? If the CDC in their judgment says, "We do not want to develop a pulp mill in Saskatchewan at the present time; we do not think it is economical", and the provincial government, on the other hand, says, "We must have it", they go ahead and make arrangements and the same thing that happens now applies. The CDC withdraws and other people move in. How do you control that and what do you envisage the CDC doing in those situations?

Professor Watkins: It is certainly true, of course, that the provinces have substantial jurisdiction in the resource areas. But in the context we are talking about, from the provinces point of view the CDC is another large corporation which may or may not participate in resource developments in a certain area. Whether it would or not, would be determined by the same criterion which any corporation would apply, the possibility of commercial return from its activities.

• 1215

Mr. More (Regina City): Then, in effect, you are saying that in your judgment more competition is needed in this field to give a wider choice to Canadian investors?

Professor Watkins: Yes, that is a very useful way of putting it.

Mr. More (Regina City): Basically, you have not sold the idea to me. You have talked

theory, but what could you indicate to the investor as the benefit that he could obtain by going to the CDC rather than to the present existing agencies?

Professor Watkins: His benefit as a private investor obviously would be that he would earn a higher rate of return that way than he could from his alternatives. If we insert the CDC or the shares of foreign-controlled private subsidiaries into the market, the question of benefits to individuals becomes the private return they will get from their investment. There is also, though, a social return and a public return. I would think if the private return were equal that it would be preferable to have Canadians buy shares in the Canada Development Corporation rather than buy scattered minority interests in American companies.

Mr. More (Regina City): I would agree with you, but the theory that a return will be equal from a government operated agency is something I am not sold on.

Professor Watkins: Again, if that does not happen, then the CDC will not amount to very much. The term "government operated" is a bit ambiguous. The point about the CDC is that it is supposed to work in very close conjunction with the private financial community. I do not think the way the CDC has been envisaged during the discussions on it would make it appropriate to say it would be government operated.

Mr. More (Regina City): Where is it going to get its funds to make any impression or do anything in its initial operations? When it starts surely the government will...

Professor Watkins: Surely, yes, but that is presumably analogous to why governments give tariffs. If it is an infant firm argument, it is to give it the initial push, but that should be for a pretty short period of time.

Mr. Salisman: Mr. Chairman, it seems to me because your terms of reference did not include an extensive examination of the tax system—I think I am correct in making this assumption—that we cannot really look at your report in isolation from the Carter Commission recommendations. I think the two of them have to be tied together in some way to see how they relate to each other. The discussion that has been taking place today, I think, points this out—we talked about the outflow of capital and investment being influenced by best returns. The best returns are certainly

influenced by the kind of tax structure we have and the Carter Commission pointed out that there are built-in bonus features in our system now. Because we have no capital gains tax, for instance, there would be an attraction for American growth stocks. It is not a case of seeking best returns on a neutral basis; the tax system itself tends to encourage one kind of investment rather than another. In order to accomplish some of the objectives you outlined for us in your report, we are going to have to change our tax structure or this kind of distortion will continue.

Professor Watkins: I fully agree, Mr. Chairman, that there is no sense in which rates of private return are naturally determined, given the extent to which governments tax; that is, there are various kinds of distortions introduced by the tax system. We know that the Carter Commission pursued, perhaps too diligently, the notion of trying to have a fully neutral tax system. When I say "too diligently" I mean only that it seems to me that there are occasions when you do, in fact, want to use the tax system as an instrument to achieve certain kinds of things which go beyond the notion of a completely neutral tax system.

• 1220

A case in point would be if one wanted to encourage large companies to offer their shares to Canadians. It is not clear that there is any way to do this other than through tax incentives. If the Carter Commission does not like that, I guess that is too bad.

However, the federal government today has very few instruments which it clearly has under its control, and surely its most powerful instrument is the right to tax. There is no particular reason for its tying its hands in the uses it makes of the tax system. If there are certain kinds of national objectives that can be obtained through tax incentives, then the Task Force has no objection to their doing that.

I think the more obvious point perhaps where we overlap, and are in agreement with, the Carter Commission is on this question of the special tax treatment that accrues to certain industries—petroleum being an obvious case in point—in which many of the firms are foreign-owned. As we suggest, the problem there is simply that the benefits lost to Canadians as taxpayers will simply accrue to foreigners as taxes received by foreign governments, or will be received directly by

foreign shareholders. Canadians will simply lose the benefits from this.

Mr. Saltzman: Two investment decisions being taken today seem to result from the lack of neutrality in our tax system. Perhaps one of the reasons for more money going into insurance companies than into other forms of investment is their favoured position under our tax system.

Again, even though there is a higher dividend return, it seems to me, on some Canadian equities, a considerable amount of Canadian money is going into United States equities, again because of the absence of a capital gains tax in Canada. Our investors are perhaps more interested in tax free capital gains than in a higher return in the form of a dividend that is taxed. Therefore it seems to me that these things have to be corrected at the same time.

I now wish to deal with the question of maximizing resource benefits. In the course of your study, did you examine the problems involved in natural resource industries in trying to get the maximum benefit for Canada? Did you consider forgetting about ownership completely and trying to ensure that Canadians receive the greatest benefit by the establishment of a national marketing board that would ensure that our natural resources were marketed in the best interests of Canada, regardless of who owns the mines or the resources, or whose capital it was, and would ensure that Canadian supply was adequate for our secondary industries and would promote our secondary industrial development?

Professor Watkins: The answer, Mr. Chairman, is that we in no explicit or thorough way considered the possibility of national marketing boards, hardly because it seemed perhaps to go somewhat beyond our terms of reference. To put it in a different and perhaps more positive way, it is desirable, I think, to explore the possibility of obtaining more benefits for Canadians without, at the moment, perhaps, going quite that far. There is quite a bit of scope for doing things, short of actually setting up national marketing boards.

Mr. Saltzman: I can appreciate the fact that you may wish to obtain in an indirect way the benefits you think important, but the indirect way seems to be terribly cumbersome. It looks as though it is going to take a long time, and perhaps some of it may never be accomplished in this way. Perhaps we could move immediately into a direct method

of setting up a national marketing board to ensure that the marketing of our raw materials and resources is done to the maximum benefit of the Canadian people?

• 1225

Professor Watkins: That is certainly a possibility that could be explored. We know that in certain cases, such as wheat, this has been done, and presumably with success. Some underdeveloped countries today, who are concerned with the possibility of state marketing, are trying to do this. One does not rule it out.

The problem we have is that the major purchasers of these resources are going to be giant corporations. Are you going to sell iron-ore to the foreign steel companies? There are some problems about exactly what arrangements they are prepared to go along with. That is, the major input that is involved here is the fact that they are prepared to market with you. Properly handled, I think they will be prepared to do that, but I am not yet convinced that it is necessary to go that far.

Mr. Saltsman: I was interested in your remark about the Middle East and the idea of the bargaining positions that governments take. It would seem that with such a board we could exert our maximum bargaining position as the circumstances indicated; that we could ensure that these products were being marketed at their fair value; that we were receiving the maximum returns in terms of taxes and in terms of the prices that would be paid to Canadians for the use of resources which were being depleted; and that it would at least put us in a position where we could examine the problem and then bargain from information and from knowledge.

Professor Watkins: Yes, there are possible benefits. There are also possible costs arising from such arrangements. The essence of such boards is that they bargain but that they must not themselves try to smooth out fluctuations in prices. They have to try to stimulate the market and get the benefits without interfering with the market.

Experience shows that sometimes it is difficult to get a board to accept that kind of limited role. It would be under pressure to provide certain kinds of guarantees to domestic factories employed in this kind of industry. It makes the mistake of trying to do more than it is in fact intended to do, which is simply to participate.

Mr. Saltsman: Thank you.

The Chairman: Thank you, Mr. Saltsman.

The record should indicate that I have now been able to resume the Chair. I wish to thank you, Mr. Wahn, on behalf of Mr. Clermont and myself, for having carried out the duties of Chairman during our absence at the Labour Committee. It is obvious that things have gone very smoothly during our absence.

The next two names on my list are those of Mr. Lind and yourself, Mr. Wahn.

Mr. Lind: Thank you, Mr. Chairman.

Dr. Watkins, how would you propose to raise the capital to run this Canada Development Corporation?

Professor Watkins: I think, Mr. Chairman, in the initial period, it would get its capital from the government. In the long run it would try to tap the variety of sources of funds that are available through the capital market. It would offer equities to Canadians. It might consider offering bonds which could also be purchased by foreigners.

Mr. Lind: Would this expectation of getting its funds from the government envisage any cost to the general taxpayer?

Professor Watkins: No; the expectation is that the Canada Development Corporation will operate as an ordinary commercial enterprise and will not constitute any drain on the taxpayer. It will not be subsidized. If it cannot survive without subsidies it ought not to survive.

Mr. Lind: Would it expect to earn a profit immediately, or will it be...

Professor Watkins: I presume there is always the problem in setting up new companies of any kind that they are not necessarily immediately profitable. To the extent that one can get any data at all about subsidiaries in this country we know there are some subsidiaries that have not paid dividends for the first 15 or 20 years after being set up. That may be longer than we would expect, but one does not normally expect a new enterprise to be in a position to pay dividends from the very beginning. It has to be looked upon as a growth stock.

Mr. Lind: Therefore, Canadian purchasers in this, other than the government, would be looking for a capital gain?

• 1230

Professor Watkins: They would be expecting returns in the long run, either through

dividends ultimately being paid or through capital gains.

Mr. Lind: If dividends are not paid for a few years they will be losing money on it, will they not?

Professor Watkins: No. Again, I think the experience of most companies when they are established is that they do not pay dividends in the early periods. In other words, they are still trying to grow; they are still ploughing back. Investors of any sophistication do not expect to get dividends immediately from new companies.

Mr. Lind: But there are two things: For their risk either they have to have capital gains or they have to have increased dividends in the future to make up for the years during which they lost earnings. What do you anticipate an investor logically could hope to receive from the Canada Development Company?

Professor Watkins: In the long run it would be expected that it would pay dividends. To the extent that that becomes clear before they begin to pay them, the stock price will rise and anyone who owns them can sell and take his capital gain which is in anticipation of his future dividends. Whether one ultimately gets dividends or the capital gain depends on how long one holds them.

Mr. Lind: Would this company be influenced at all by the type of management they set up and what companies or subsidiaries they take over?

Professor Watkins: I think the critical point would be the quality of the people who could be recruited to run the CDC. I think one part that encourages one about the CDC is that there have been some very distinguished, competent people in the financial community that have indicated a considerable interest in the CDC; I am not suggesting a majority but certainly some persons of very high calibre have.

Mr. Lind: I am interested mainly in that you think the government should invest in this as a start before the general public comes in. How many dollars do you think the government should put in?

Professor Watkins: I do not really have views, Mr. Chairman, on anything quite that specific. I think one would have to rely on the judgment of people familiar with the financ-

ing of new companies to know the kind of minimum input of capital required to get it launched.

Mr. Lind: Did your Task Force not go into a fairly thorough study of this Canada Development Corporation?

Professor Watkins: No. as I indicated earlier we did not get involved in a detailed way in the question of its financing.

Mr. Lind: But you recommended it.

Professor Watkins: Yes. I defend that on the grounds that we looked at the things we thought could be done by a Canada Development Corporation; rightly or wrongly we thought the problem of how it was financed was not such a major issue. The problem of how it is financed over its first two or three years, rightly or wrongly, did not seem to us to be a critical problem. That is the sort of thing on which you really do have to have experts from the financial markets rather than economists from universities.

Mr. Lind: How can you recommend it if you have not gone into it? This is my point.

Professor Watkins: We recommend it because of the kinds of things that we think it can do.

Mr. Lind: What can it do, specifically?

Professor Watkins: We suggest specifically that it can play a role in consortium in the resource development field. We suggest specifically that it can act as a catalyst in rationalization of certain secondary manufacturing industries.

Mr. Lind: Now, explain this "catalyst" and "certain secondary manufacturing industries". What do you mean by "catalyst"? I know what catalyst means in a chemical sense.

Professor Watkins: I do not want to suggest that it should get involved in any specific industry, but in our report we have some discussion of the refrigerator industry. We attempt to show that in that industry there are now eight or nine firms, most of which are foreign controlled and most of which are inefficient in the sense that industry experts say these firms are too small to be efficient. The data we could find—based partly on statements by industry officials—indicates there should be at the most two plants producing refrigerators if they are to be efficient.

• 1235

The question is: If that is so, how do you move from nine firms to two firms?

Mr. Lind: Is it your anticipation that the Canada Development Corporation would buy up seven or nine inefficient firms and make two efficient ones?

Professor Watkins: No, we did not say "buy up". I said earlier that I did not think it should necessarily want, in any typical case, to have majority control. We thought again in such a case that the Canada Development Corporation could look at those Canadian firms that are in the industry and perhaps some of the foreign controlled firms that are interested in it and go to them and try to talk about creating a larger firm in that industry that could be more efficient.

It could play a leadership role in trying to induce other firms to enter into these rationalization programs, and it is likely that its credibility will be increased if it is prepared to put some capital into it. So perhaps it would take 25 per cent of the equity in this new firm and it would do the same with three other companies; they would all have representatives on the board of directors and they would then be more efficient than any other firm in the industry.

Mr. Lind: With this efficiency, Dr. Watkins, would you be able, first of all, to reduce the price of the products or the white goods that we are talking about? Second, would you earn a bigger dividend than these companies are presently earning? Most of these companies are making money.

Professor Watkins: Yes, we are not denying that most of them are making money, partly because their inefficiency is subsidized by the tariff. But the point is rather that if they are more efficient their costs will be lower; to some extent, lower costs can be reflected in lower prices, and to some extent lower costs can be reflected in higher returns to investors. Efficiency usually breeds profits, and the CDC would share in those profits to the extent that it holds equity in this firm.

Mr. Lind: I cannot go along with your proposition that these companies are not efficient now. They have a tenth of the market that the United States parent companies have.

Professor Watkins: They are as efficient as they can be within the constraints that exist.

One of those constraints is that largely because of the Canadian tariff it is possible for these firms to be high cost, specifically much higher cost than in the United States, and to survive in spite of that.

We know that many Canadians are now advocating reduction in the tariff. Presumably when that happens we do not want to find that our industry goes to the wall. We want to work out devices by which we can make our industry efficient. I do not think that industry becomes more efficient in any automatic way. If we have had a tariff for almost 100 years and it remains inefficient, it is not going to become efficient overnight.

The government created this inefficiency through tolerating tariffs for so long and now it should provide some leadership in eliminating that inefficiency. One possible way to do it is through the Canada Development Corporation—it is not the only way. In general, we want to increase the quality of all the inputs that Canadians can offer, improve capital markets, improve the education of our labour force and the quality of management, and make them face more competition than they have in the past.

Mr. Lind: Just one minute now. How are you going to create more competition if you cut out seven of nine companies?

Professor Watkins: Because the real competition comes from imports. You do not have competition in the refrigerator industry today; if you did the price would be the American price for refrigerators, and it is not that price. You are getting an illusion of competition taking place behind a tariff wall.

Mr. Lind: Pardon me for interrupting, but you are taking me on a kind of merry-go-round. I would like to know how our Canadian companies are able to sell into the United States market, which some of these companies in the white goods are doing.

Professor Watkins: Yes, in some cases of course. I do not have a blanket statement that Canadian firms are never efficient but we now know, largely from the studies of the Economic Council and earlier studies by the Royal Commission on Canada's Economic Prospects, that many of our secondary manufacturing industries are inefficient. It is quite true that one of the problems is the smallness of the Canadian market. But we know that is not the only problem because the Canadian market is large enough to permit us one or two efficiently-sized refrigerator plants. The

problem is that there is not one or two, there are nine. The problem is not market size alone then. The problem is that given our market size there are too many firms in these industries. I admit it would sound paradoxical to say, reduce the number of firms and get more competition, but it is in fact true that the major source of competition that any country faces is in respect of imports. That is true even in a giant economy like the United States. The ultimate constraint on what the steel companies were doing in the 1950s was the fact that they reached the point where their prices made them subject to import from western Europe and Japan. The most effective competition comes through imports.

• 1240

Mr. Lind: Let us stay on refrigerators because this is what you took me off on. I am interested in the refrigerator end of it because we export a lot of these to the United States and some firms are able to do so at competitive prices. If there is a tariff coming in I imagine there also will be a tariff into the United States to protect their corporations also.

Professor Watkins: I must confess at the moment I do not know what our exports of refrigerators are. I am sure they are much lower than our imports and I am sure that our imports would be very very much higher if this industry had to face world competition.

Mr. Lind: Have you any idea of the number of refrigerators we import?

Professor Watkins: At the moment I do not. I know our imports have fallen off substantially. The industry has become more efficient in recent years but it still is high cost and it still seems to me to require substantial tariff protection. Unless I am mistaken, the Kennedy Round reductions did not affect the refrigerator industry at all, it maintains exactly the same tariff protection it had before the Kennedy Round. So we cannot expect that what has happened by way of multilateral tariff reduction is going to solve that problem.

Mr. Lind: If you cut nine manufacturers down to two and stepped up efficiency, would you anticipate that you would throw people out of work?

Professor Watkins: That is the risk you run if the government does not plan properly. We are suggesting that you can have your cake and eat it too, that you can have more efficient firms provided you consider ways to

make certain that these factors become efficient and remain employed in Canada. If tariff reduction means mass unemployment of course one is opposed to it, but it does not have to mean that.

Mr. Lind: I am not tying it to tariffs but to efficiency. You gave me one example of the white goods, the refrigerator business. Now what is the second one that you would go into?

Mr. Gilbert: Radios and TVs.

Professor Watkins: There are many examples.

Mr. Lind: I am asking the witness, not Mr. Gilbert.

Professor Watkins: The automobile industry, in respect of which the government has entered into an agreement in order to try and improve the efficiency of the Canadian sector. That is a specific solution tailored to the problems of the automobile industry.

Mr. Lind: Has this not been done without the Canada Development Corporation?

Professor Watkins: Oh, yes. I am not suggesting that the Canada Development Corporation is necessary in every case in order for this to be done. The automobile case is an unusual one because the industry is completely foreign-owned and there is already at least one giant firm which can presumably be efficient if it rationalizes on a continental basis. It seems to be a clearer case than some of the others.

The Chairman: Mr. Lind, I do not want to interrupt but I understand it is very likely that we will not have Dr. Watkins with us this afternoon and...

Mr. Lind: Mr. Chairman, I object. This is the first time I have questioned Dr. Watkins and if I cannot have a fair amount of time then there is no use of me belonging to the finance committee.

The Chairman: Just a minute, Mr. Lind. I am not saying...

Mr. Lind: Mr. Chairman, I object to this.

The Chairman: ... that you should not continue, I am just suggesting that we decide right now...

Mr. Lind: I have never questioned Dr. Watkins before and others have done so two or three times.

The Chairman: Perhaps you could hear me out. If you did not question Dr. Watkins before I presume it was because you did not take a turn before we got around to somebody taking a second turn.

Mr. Gilbert: Very few have had a second turn.

The Chairman: Nobody has had a second turn?

Mr. Saltsman: I have had second turn.

• 1245

The Chairman: Then you are the cause of all this.

Mr. Cameron (Nanaimo-Cowichan-The Islands): You will always find that he is the cause of the trouble.

The Chairman: All I am saying is that we should decide if we want to continue past one o'clock or whether we want to sit this afternoon.

Mr. Saltsman: Mr. Chairman, there are no further questions.

The Chairman: I see Mr. Wahn's name is on the list and also Mr. Noël's.

Mr. Wahn: I am prepared to secede my ground to Mr. Lind. I am very interested in refrigerators.

The Chairman: We can go on a bit past one o'clock without any difficulty and if this is not practical we can consider sitting this afternoon. Mr. Lind, would you like to continue?

Mr. Lind: I am not yet convinced of Dr. Watkins' statement that the refrigerator business is inefficient. Maybe an economist has reason to say this but I do not go along with it because these people have all been making money, they are putting them out and servicing the Canadian public.

Professor Watkins: The criterion of efficiency—obviously one can use different criterion—in our mind is its costs relative to other costs of production in other countries. High profits is not necessarily proof of efficiency, it may result simply from monopoly power.

Mr. Lind: Do you say that with nine in competition there is still a monopoly power?

Professor Watkins: No, I did not mean to imply that was so in the refrigerator case. The point is that there are nine firms and

they are not competing actively with respect to price. That is not a criticism of them in the sense that it is difficult to do that and there is no particular incentive to do it when they can earn profits without doing it. Again, though, the price of refrigerators to a Canadian is significantly higher than the price of refrigerators to an American even when allowance is made for the differences in the excise tax systems that exist—and that is the test.

Mr. Lind: But you will admit that when they tool up for a new model there is an awful difference in the cost if they run 10,000 units off or run 100,000 units off. Are you saying the minute you drop to two firms that you can guarantee that you will save the Canadian people money on their white goods?

Professor Watkins: I think we can guarantee that the costs will be lower, and then the next problem is to make certain that these costs are passed on to consumers.

The Chairman: You are referring to the savings, not the costs?

Professor Watkins: Pardon me, yes. These savings are reflected in lower prices. I should not suggest that there is any automatic way to guarantee that but a tariff reduction would be the most obvious way of trying to do that. You would simply say to them: "If you do not cut your prices we will let imports come in."

Mr. Lind: How can we do this with a government-controlled corporation?

Professor Watkins: The Canada Development Corporation is not necessarily government-controlled.

Mr. Lind: Well you suggest it is government-financed.

Professor Watkins: It would in part be government-financed but in the long run one would not expect that it would be substantially government-financed.

Mr. Lind: But it would be in the initial stages.

Professor Watkins: Yes, I am sure that would be so in the very early stages, and I must confess I am not sure how long that would have to be.

Mr. Lind: Now the refrigerator business is one example, and it is a very small segment of the economy. What other examples do you have? Let us leave out the U.S.-Canada Auto

Trade Pact and go into something else. Let us go into the finance field, the mutual funds field. For instance, what would you suggest that the Canada Development Corporation would buy there?

Professor Watkins: I had not at the moment anticipated doing anything in that area.

Mr. Lind: You realize that a lot of Canadian mutuals are heavily invested in U.S. securities rather than Canadian equity?

Professor Watkins: Yes, but we suggest that the appropriate way to try and cope with that is to increase the supply of equities in Canada.

Mr. Lind: Would the Canada Development Corporation do this or would they cut down on the supply of equities in Canada?

Professor Watkins: If the Canada Development Corporation were very large and very successful I suppose it could have a major impact on the Canadian capital market, but the point is that if it did that it would be because it was successful and I would not mind that happening.

• 1250

Mr. Lind: Then actually it would have a monopoly itself.

Professor Watkins: No, it still has to meet market tests. It would be very difficult, I think to get a monopoly, a proposition of any substance in a well developed capital market. On the whole we have a well developed capital market in Canada.

Mr. Lind: Would it be going into the banking business also, because it is part of the financial structure of the company and very important.

Professor Watkins: We did not mention that as a possibility in the Report. We did not specifically anticipate that it would do that. My view is that it would not be desirable to do that in the sense that it does not want to mix up too many different objectives. I think the Canadian banking system on the whole is efficient and I am not quite certain why the CDC would feel any need to get involved in this.

Mr. Lind: I gather from your remarks that when you made this recommendation the only field that you had gone into and investigated is the refrigerator business.

Professor Watkins: I think the point there is that we did not set out to do a number of studies of specific industries. We looked at the refrigerator case just because we thought we would like to give an example in our Report of some of the problems of these industries.

The study that was done by Fullerton and Hampson for a Royal Commission now about a decade old studies a number of secondary manufacturing industries. There has been quite a bit of work done on this also by academic economists. Professor Edward English at Carleton has done some specific industry studies. A very recently published book by professors Eastman and Stykolt of my university has 20 industry studies in it, many of which are secondary manufacturing industries and in many of these industries our costs are higher than in the United States.

Mr. Lind: Is it due to the major fact that we do not have the population for production runs?

Professor Watkins: No, that is not the major reason. We do, in fact, have a larger population than Sweden, and Sweden is more efficient in many cases than we are. Population size is not the controlling factor in determining the efficiency of industry.

The Chairman: Perhaps it is because they have more private enterprises in Sweden.

Mr. Lind: I still have not found out whether you have studied more than the white goods industry in making the recommendation at the Canada Development Corporation.

Professor Watkins: I tried to indicate, Mr. Chairman, that the Task Force does not have to start new. There are many studies that have been done and this is not a new issue. There have been many studies of secondary manufacturing industries in Canada. I have cited the Gordon Commission studies, I have cited English, I have cited Eastman and Stykolt and there are more of these. I add now the weight of the Economic Council which, in a chapter at its Fourth Annual Review, comes out solidly behind the proposition that we need to rationalize Canadian industry and I do not think they set any examples at all.

Mr. Lind: No, but you have not convinced me yet that when you recommended a Canada Development Corporation you had gone into this subject thoroughly, other than on the theoretical side.

Professor Watkins: I think these studies I am citing are not purely theoretical studies, because in Eastman and Stykolt's book, for example, the appendices are two-thirds of the book and give studies of 20 different industries. The other point is that the theoretical side is important in its own right. The question of whether it is population size that determines markets cannot just be established by looking at facts. You also have to have some theoretical view about what causes efficiency.

Mr. Lind: If the government were not going into this, would there be any risk in setting up this CDC?

Professor Watkins: The problem of setting up new institutions, I would have thought, is finding someone who will do it; who will set them up and get them over the initial hump.

Mr. Lind: Is there any risk involved? That is what I want to know.

Professor Watkins: Yes, I suppose we should be realistic. There is a risk in everything we do.

Mr. Lind: But with government backing the Canadian people, then, are taking the risk.

• 1255

Professor Watkins: It seems to me impossible ever to reduce risk to zero. The risk cannot be that great only in the sense that the Canada Development Corporation just will not grow that big unless it can meet these market tests, and if the judgment of people who say it cannot is correct, if that turns out to be the case, then the Canada Development Corporation just will not amount to much. I would not want to see it made into much if it cannot do these things.

Mr. Lind: Where does the government that set it up sit if it fails?

Professor Watkins: I am not sure what you mean by failure.

Mr. Lind: You just said that it will not amount to much.

Professor Watkins: It may not grow very large, but one never anticipates bankruptcies.

Mr. Lind: Not with a government institution, but it can indirectly; if it is spent out of the public purse it can go bankrupt. But also it will not earn many dividends or much equity for the Canadian people, will it?

Professor Watkins: Again, if it is not profitable it will not grow. If it is profitable it will grow.

Mr. Lind: There is quite a risk, then, in setting it up, is there not?

Professor Watkins: There is a risk in creating any new activity.

Mr. Lind: Yes. Thank you, very much.

Mr. McLean (Charlotte): Dr. Watkins, would it not be a case of management? Is not everything mostly a case of management?

Professor Watkins: Yes, I think I said that earlier. This is one reason I think the general notion has been that the CDC legislation should be of a fairly general kind and should not attempt unduly to specify the things that the CDC should do. The ultimate test is whether you can recruit people from the present financial community to play the leadership role in the CDC. It seems to me there have been enough people evidence an interest in this to believe that is possible.

Mr. Lind: May I ask one further question, Mr. Chairman? Would you anticipate this CDC paying taxes like any other corporation, or would it be tax free?

Professor Watkins: It seems to me that if it is going to be properly competitive with the private sector then it has to pay taxes as does the private sector. Yes, it certainly should. It should not be given any unfair advantage over private sector institutions.

The Chairman: Are there any further questions at this time?

Mr. Wahn: I think I can put mine in the few minutes that we have left, Mr. Chairman, if I may be permitted.

Dr. Watkins, in view of your Task Force would the purpose of the CDC be to maximize the profits of its shareholders subject only to compliance with law and to the fact that its operations are to be carried on in Canada?

Professor Watkins: Yes, with only a footnote that there have been some discussions of the possibility that it would not have to be constrained to operations in Canada. There may be cases in which you can get effective control by buying foreign capital. We will have to include that in the legislation and leave it to the judgment of the people who run it.

Mr. Wahn: I do not want to take you back to those refrigerators, but let us take the case of the refrigerators. If we adopt your suggestion and the CDC rationalizes the industry and therefore has a larger organization and makes very large profits because it is more efficient, what does it do? Does it cut the cost of the refrigerators or does it distribute its profits to its shareholders?

Professor Watkins: No. We do not expect in a competitive system that you earn a normal profit in the long run. An arrangement would have to exist by which these lower costs can be reflected in lower prices.

Mr. Wahn: That is the very point. If the CDC is going to operate competitively with the private sector its object should be to keep the tariff as high as possible and to make as large a profit as possible, because you have said its object is to maximize its profits for its shareholders and to distribute its profits to them rather than to reduce prices or lower tariffs.

Professor Watkins: The CDC itself would not have any power for setting the tariff; they would have nothing to do with setting the tariff.

Mr. Wahn: But business urges government to keep tariffs up in Canada and presumably, therefore, the CDC should do the same thing.

Professor Watkins: There has been increasing evidence in recent years of business firms being willing to support tariff reduction. In the short run they always resist that kind of change, but in the long run they may see it to their advantage to have a policy environment in which they can be more efficient.

• 1300

Mr. Wahn: Well, is there not a basic conflict in the CDC, namely, sell at reduced prices if it makes a profit or make as large a profit as possible?

Professor Watkins: I do not think it is a basic conflict because whenever there is an innovation of some kind in industry that reduces costs, then the next round of questions is the distribution of the benefits. Will they accrue to shareholders, will they accrue to the labour unions who bargain for higher wages, or will they accrue to the consumers? By and large, in a competitive system, the decision on what happens can be left to the market itself. I think in this case the best protection one has against profits rising is the

case of tariff reduction. The other point is, even if profits do rise, the present levels of corporate tax assure that half of it will go back to the Canadian public.

Mr. Wahn: Just one very short question. After the initial period, Professor Watkins, did your Task Force visualize that the CDC itself would be government controlled or controlled by private investors?

Professor Watkins: I think we expected that membership on the Board of Directors would be determined by the shareholders, as it were, and the government presumably would have a number of representatives on that Board equal to its equity participation.

Mr. Wahn: But would that equity be large enough to ensure government control of the CDC?

Professor Watkins: I think it ought not to be large enough to ensure that.

Mr. Wahn: Those are all the questions I have.

The Chairman: This question may have been asked, Professor Watkins, but if the CDC becomes large and successful and an important force in the Canadian economy, yet is set up and operates on the basis you have outlined to Mr. Lind and to Mr. Wahn, how can we ensure that the corporation will not operate in a way which conflicts with the economic policies of the federal government? How do we ensure that we do not create a situation similar to that taking place in Italy, where the great ENI holding company seems to be almost a government source of economic power unto itself and operates in contradiction to the policies of the Italian government.

Professor Watkins: Mr. Chairman, I am not familiar with that case. There is always a risk, I presume, when you create giant entities that power will come to them in their own right. What is necessary then is partly the general powers of Parliament to deal with these situations. In this case, presumably the government is a shareholder and has some greater control. I presume also that the legislation creating the CDC might have some possibilities for establishing in the beginning, if one can do that, certain kinds of constraint to avoid the risk of whatever it is that might ultimately happen.

The Chairman: It seems to me a point that cannot be overlooked is this: If the CDC is

set up and becomes large and important, surely if this step is taken with the consent, with the support, and with the funds of the Canadian people through their national government, it would seem rather strange to say the least, that a situation might arise in which its Board of Directors, in their wisdom, operate contrary to the general economic policy of the government of the day, which they might well do?

Professor Watkins: I agree that would not be desirable, but there are always problems of tension which can arise between institutions and I do not know of any foolproof way to eliminate that possibility.

The Chairman: While it may be desirable that the CDC will not be just another government department, still would you not agree that there should at least be some mechanism, similar to the mechanism that this Committee helped write into the Bank of Canada Act, whereby the government if it deems it serious enough can give some sort of direction to the Governor of the Bank of Canada while ensuring his essential independence?

Professor Watkins: That is a possibility that could be considered.

The Chairman: I think one would hate to see the possibility of a Coyne situation arising with respect to the CDC if it were set up. I presume if it were set up it would become an institution perhaps not as important as the Bank of Canada, but certainly a very important institution.

Professor Watkins: I think it is now established though that the Bank of Canada is in a much more dependent role and one might not want to go that far with the Canada Development Corporation. I feel it is now established that the Governor of the Bank is responsible to the Minister of Finance.

The Chairman: Yes, the Governor, but this had to be written into the law on a continuing basis. After the unfortunate Coyne confrontation with Mr. Fleming subsequent confrontations were not left to be dealt with on an ad

hoc basis. This Committee as part of the Parliament of Canada helped develop a formula whereby the Governor of the Bank of Canada had an essential and continuing independence, but where a conflict arose there would be a definite clear-cut way of resolving the conflict and ensuring that the only responsibility would be brought home to the ultimate source of authority, the representatives of the Canadian people, and the Canadian people could then have an opportunity to pass judgment.

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Professor Watkins: I think, Mr. Chairman, if the government ever produced this legislation on the CDC it certainly should be considered by a Committee such as this for exactly those kinds of issues.

The Chairman: Well, thank you, Professor.

Mr. Lind: One further question, Professor Watkins. Theorists are usually a number of years behind the practical men.

The Chairman: Sometimes it is the other way around.

Mr. Lind: In theory, would you set this CDC up with theorists or practical men?

Professor Watkins: It would be run by practical people. It would be run by people who have experience in the capital market, and it is not to be run by academic economists. I would oppose it if it were to be run by academic economists.

Mr. Cameron (Nanaimo-Cowichan-The Islands): So you are not going to take the job yourself.

Professor Watkins: Absolutely not.

The Chairman: You should have more self-confidence, Professor Watkins. We are adjourning to the call of the Chair and I will be scheduling other meetings as soon as we know when the House will resume.

Mr. Wahn: I move a vote of thanks to Professor Watkins.

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